

Iraq and Iran post-2003

Cooperation in the energy sector

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Abstract

The goal of this thesis is to examine the presence of economic integration in the energy sectors of Iraq and Iran after the invasion in 2003. I argue that the absence of Saddam in combination with an Iraqi energy sector in dire need of reconstruction has provided for an opportunity for closer cooperation between the countries. I approach this issue through identifying drivers and obstacles to integration, and separate between inherent and contingent factors. This classification helps shed light on why establishing economic integration is hard, but nonetheless happens between the countries. I argue that the degree of cooperation achieved is dependent upon changes in the contingent factors, and the interaction between the inherent and contingent factors. Together the contingent and inherent factors form the window of opportunity for economic integration between Iraq and Iran.

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For any errors or inadequacies that may remain in this work, the responsibility is entirely my own.

Abbreviations

CISADA – Comprehensive Iran Sanctions Accountability and Divestment Act

CPA – Coalition Provisional Authority

DFI – Development Fund for Iraq

ECSC – European Steel and Coal Community

EEC – European Economic Community

EIA – Energy Information Administration

GAO – The United States Government Accountability Office

IAMB – International Advisory and Monitoring Board

ICOFC – Iranian Central Oil Fields Company

INOC – Iraq National Oil Company

INTSOK – Internasjonalisering og samordning av oljeaktiviteten

IOC – International Oil Company

ISCI – Islamic Supreme Council of Iraq (formerly known as SCIRI)

MDP – Master Development Plan

MoE – Iraqi Ministry of Electricity

MoO – Iraqi Ministry of Oil

MW – Megawatts

NIOC – The National Iranian Oil Company

NUPI – Norsk Utenrikspolitisk Institutt

ORHA – Office of Reconstruction and Humanitarian assistance

POW – Prisoner of War

PSA – Production Sharing Agreement

SCIRI – Supreme Council for the Islamic Revolution in Iraq

SIGIR – Special Inspector General for Iraqi Reconstruction

SOMO – State Oil Marketing Organization

UNSCOM – United Nations Special Commission

USAID – United States Agency for International Development

UNSCR – United Nations Security Resolutions

WMD – Weapons of Mass Destruction

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1 Introduction and Research Question

1.1 Research question

The goal of this thesis will be to examine the presence of economic integration in the energy sectors of Iraq and Iran in the time period between 2003 and 2011. The energy sector will here be understood as the oil and electricity sectors. By focusing on the energy sector, I have sought a different route to evaluating the relationship between Iraq and Iran than the more traditional one that often focuses on the historical tendency towards animosity between the countries, the conflicting ideological perspectives they represent, and the importance of the Sunni/Shia divide.

Contemporary Iraq has to consider the revitalization of its petroleum sector and securing the flow of electricity to its citizens when it makes decisions on foreign and security policy. I will argue that the opportunity for new thinking provided by the absence of Saddam in combination with an energy sector that requires extensive reconstruction, has lead to changes in the bilateral relationship between Iraq and Iran. This is not to say that one should ignore the influence of the countries' hostile past altogether when evaluating the current relationship, but rather that one should also acknowledge the fact that the bilateral relationship can change.

In Europe, the same animosity that has been the benchmark of Iraq-Iran relations, could once be found in the bilateral relations between France and Germany, however trade between the two countries was thought to lessen the likelihood of another war. Economic trade that started in the countries' coal and steel sectors would later spread to other sectors, meanwhile strengthening the overall bilateral ties between the countries. Eventually the integration process would include other European countries as well. In this thesis I will draw from the theories that have been used to describe the European integration process in order to explore the process of economic integration between Iraq and Iran. The overall research question is:

What structures the nature of economic integration between Iraq and Iran in the energy sector?

I will approach this question through identifying drivers and obstacles to economic integration between Iran and Iraq. I will separate between inherent and contingent factors. This classification will help shed light on why establishing economic integration is hard, but nonetheless happens to a certain degree within the energy sector. In accordance with the theoretical framework chosen, the research question will be explored along two axes: high versus low politics as vantage points for cooperation, and politicians versus technocrats as the driving forces behind the integration process.

I will define the inherent factors as historical ballast and geography. Since I will be exploring the period between 2003 and 2011, I have chosen to view the legal void caused by the absence of an oil and gas legal framework as an inherent factor as well. In addition to these three factors I will demonstrate that domestic pressures and international pressures work as contingent factors. The degree of cooperation achieved is dependent upon changes in the contingent factors, and the interaction between the inherent and contingent factors. In the electricity sector, I will illustrate that the presence of public pressure further strengthens the likelihood of economic integration. Together the contingent and inherent factors form the window of opportunity for economic integration between Iraq and Iran. While the inherent factors continue to inhibit further integration, the effect that the contingent factors have on cooperation varies. This will be demonstrated in Chapters 3 and 4.

1.2 Background

According to Lionel Beehner and Greg Bruno of the American organization Council on Foreign Relations, Iran has emerged as one of Iraq's largest trading partners. Quoting the Iranian Custom Administration, they claim that Iranian exports to Iraq equaled \$1.8 billion in 2006, up from \$800 million in 2004.¹ A free-trade zone in southern Iraq has also brought a surge of Iranian goods into shops in Basra, including kerosene and cooking gas.

¹ Lionel Beehner and Greg Bruno, "Backgrounder: Iran's involvement in Iraq", *Council on Foreign Affairs*, 03.03.08, <http://www.cfr.org/iran/irans-involvement-iraq/p12521> (Accessed 21.03.11).

Anoushiravan Ehteshami, a Professor of International Relations at University of Durham, notes that southern Iraq is the only place outside Iran where Iranian currency, the rial, is used.²

There also seems to be a new regional tendency towards establishing friendlier neighborly ties. Old disputes between nations across the region are increasingly being settled.³ One of the most dramatic examples of this came in March 2001, when Bahrain and Qatar accepted the verdict of the World Court that settled their longstanding border dispute.⁴ Another example is the signing of an unprecedented security pact between Iran and Saudi Arabia in April 2001. This could be seen as Iran taking a step towards reconciliation and a less aggressive approach towards neighborly relations.⁵

Although the last two paragraphs may give the impression that the relationships in the region have vastly improved, one should not forget the opinions held by the general public. With regards to Iraq, public opinion establishes the degree of resistance the government could expect to meet when negotiating new bilateral agreements with Iran. The more negative the popular opinion is of Iran, the more the oppositional forces to such agreements would gain from politicizing the issue.

Pechter Middle East Polls conducted a survey in March 2010 that showed that both Shia and Sunni Arabs viewed the Iranian influence on Iraqi politicians as big.⁶ Two-thirds of Iraq's Sunni Arabs and Kurds disapproved of Iran's ties with Iraqi political leaders. Only 17 percent of Iraqi Shias viewed Ahmadinejad favorably, and 43 percent of Iraqi Shias said they held a negative opinion of Iranian ties with Iraqi political figures, with just 18 percent viewing such

² Ibid.

³ Richard Schofield, "Border disputes in the Gulf: Past present and future", in *The Persian Gulf at the millennium: Essays in politics, economy, security and religion*, edited by Lawrence G. Potter and Gary G. Sick (New York: St.Martin's Press, 1997), 127.

⁴ Lawrence G. Potter and Gary G. Sick, "Introduction", in *Security in The Persian Gulf: Origins, obstacles and the search for consensus*, edited by Lawrence G. Potter and Gary G. Sick (New York: Palgrave, 2002), 3.

⁵ Ibid., 4.

⁶ Pechter Middle East Polls, "Perceptions of Iranian influence in Iraq – March 2010 poll results", *Pechter Middle East Polls*, 29.03.10, <http://pechterpolls.com/?p=806> (Accessed 22.04.11).

ties positively.⁷ With these polling results in mind, it seems as though integration still has a long way to go, regardless of the burgeoning trade relationship and the regional trend towards betterment of relations. One reason for the Iraqi population's skeptical attitude towards Iran could be speculations concerning Iran's long-term intentions.⁸ This issue will be discussed in Chapter 2. This is not to say that the overall truth with regards to the evolving Iraq-Iran relationship can be conducted from two polls. The polls do however illustrate the skeptical attitude held by a large amount of the Iraqi population towards Tehran.

In 2007 Iran was the 4th largest oil producer in the world,⁹ and the 3rd largest oil exporter.¹⁰ Iraq on the other hand had the world's 3rd largest proven oil resources in the world.¹¹ Integration between these two petroleum giants would most certainly prove beneficial to both countries, as it would provide them with a unique position in the world's oil market. Additionally, the fact that Iraqis are cognizant that their energy strategy is also their foreign policy strategy and their security strategy,¹² makes the developments between the countries in this sector all the more relevant if one wants to understand the overall bilateral relationship. However, the historical tendency towards animosity is a recurring factor even after the invasion in 2003 and something that still complicates the probability of closer cooperation. Nonetheless, some would argue that since conflicting ideologies no longer stand in the way of establishing a closer relationship, the post-2003 era could be an era for change.¹³

An overhanging factor that complicates the Iraq-Iran relationship is Iraq's relationship to the U.S. and the U.S.'s relationship to Iran. U.S.-Iranian relations have been hostile since the Iranian Revolution. The U.S. imposed sanctions on Iran after the 1979 hostage crisis. The

⁷ David Pollock, "What Arabs really think about Iran", *Foreign Policy*, 16.09.10, <http://www.washingtoninstitute.org/templateC06.php?CID=1511> (Accessed 22.04.11).

⁸ Ibid.

⁹ ENI, "World Oil and Gas Review", *ENI*, http://www.eni.it/wogr_2008/oil-production-1.htm (Accessed 22.09.10).

¹⁰ Ibid.

¹¹ U.S. Energy Information Administration, "Background: Iraq", *U.S. Energy Information Administration*, <http://205.254.135.24/EMEUCabs/Iraq/pdf.pdf> (Accessed 22.09.10).

¹² Meghan O'Sullivan, "Iraqi politics and implications for oil and energy", *James A. Baker Institute for Public Policy*, July 2011, <http://belfercenter.ksg.harvard.edu/files/08022011-osullivan-iraqi-politics-implications.pdf>, 8 (Accessed 29.10.11).

¹³ Ray Takeyh, "Iran's new Iraq", *Middle East Journal*, Vol. 62, No.1 (Winter 2008), 13.

sanctions were reinforced under president Bill Clinton and became a total embargo on U.S. dealings with Iran, prohibiting all financial and commercial transactions. The U.S.-Iraq relationship, on the other hand, has had a more changing quality. After upholding its policy of Dual Containment against Iraq and Iran after the Gulf War, Washington provided Iraq with economic and military assistance in the aftermath of the 2003 invasion. However, in 2011 the American military presence in Iraq is near its end, but Iraq is still in need of assistance. Iran is perhaps geographically best positioned to provide it, but Iraq receiving support from Iran will be controversial since the U.S. is now heavily involved in the Iraqi reconstruction effort. The need for Baghdad to balance its relationship with Iran and the U.S. is thus a recurring issue in Iraq's foreign policy scheme.

With regards to Iraq's relationship to Iran there are several factors that need to be taken into consideration when discussing the prospects for integration. The factors are of historical, political, cultural, regional, and international nature. When approaching the subject of Iran-Iraq relations, many scholars immediately direct the readers' attention towards the hostile tendency of the relationship, some even go as far back as the Persian/Iranian empire under the Safavids (1501-1722) to make their case.¹⁴ Even in contemporary history, these are two countries that have competed against each other for regional hegemony and that have engaged in war against each other (the Iran-Iraq War 1980-1988). The countries also represent the struggle between Shia and Sunni dominance in the Middle East and the struggle between Arab and Persian culture. However, discussing the development of Iraq-Iran relations post-2003 based on historical facts and ideological struggles alone, provides for a limited approach. This will be demonstrated in Chapter 2.

Politically, a close relationship with Iran is a sensitive issue in Iraq. Many of the current top politicians in Baghdad spent years in exile in Iran before returning after the fall of Saddam. Some claim this experience has led such politicians to become favorable to Iranian policies and influence in Iraq. Opening for dialogue with Iran is thus perceived by many in the current administration's opposition as a sign of weakness, or of Iran trying to control Iraqi affairs. Among the opposition there is generally little faith in the ability to build a relationship where

¹⁴ Dilip Hiro, *Neighbors, not friends: Iraq and Iran after the Gulf Wars* (London: Routledge, 2001), 1.

Iraq and Iran act as equals. This belief is closely related to the historical factors mentioned above, and also to national and regional dynamics, which will be discussed below.

Known as the cradle of civilization, Iraq is a diverse society with a population belonging to various population groups (Arab and Kurdish being the largest) and religious beliefs. There are both religious and ethnic ties between Iran and Iraq. After the invasion the sectarian struggle within Iraq escalated and the authorities have battled to keep the country together. The heightened sectarian awareness after the invasion in 2003 has among other things led to strong reactions with regards to cooperation efforts between Iraq and Iran, as such efforts are perceived by some as part of Shia or Iranian influence. Some Sunni leaders have voiced their fear that Iraq will become a religiously driven society after an Iranian model with little room for Sunnis. This is also apparent in the debate over a new legal framework concerning the oil sector. Iraqi oil resources are largely found in Shia dominated areas, this tangled with the issue of federalism and the possible development of a decentralized state, could exclude a large share of the Iraqi population from the benefits of being an oil nation.

The diversity of the Iraqi society also means that Iraq on its own contains almost all of the populations groups, cultures and religions present in the other Middle Eastern countries. This translates to an immense interest in Iraqi affairs from the other countries in the region. Leaders of other Middle Eastern countries have voiced their concerns over what has been called the “development of the Shia Crescent”, a term first coined by King Abdullah of Jordan. The term refers to the alleged trend of Shia dominance stretching from Beirut to Tehran, and the fear that this development will cut through the Sunni-dominated Middle East. A closer relationship between Iran and Iraq, both predominantly Shia communities, would potentially enforce the “Shia grip” over the region.

On the international level, western nations in particular are generally skeptical towards Iran and its lack of dialogue with the international community. Intelligence from within the country itself is still insufficient, as the largest contributors to international intelligence are not present in Iran. This is one factor that contributes to western leaders insecurity when it

comes to Iran's nuclear facilities, its attitude towards Israel, and organizations such as Hezbollah in Lebanon. This skepticism is also true for Iran's involvement in Iraq. Some leaders in the international community fear that Iranian presence in Iraq will feed the sectarian violence, the unstable political situation and make it difficult for Iraq to function as a nation. The former American ambassador to Iraq, Christopher Hill, is among those who have voiced concerns with regards to economic cooperation between the two nations, and towards Iran's intentions in Iraq.¹⁵ The international community shares the regional community's fear of a scenario where Iran is at the forefront of a rising Shia hegemony in the region. Adding to this skeptical attitude is the fact that if Iraq were to cooperate closer with Iran and Iranian owned companies, Iraq would be at risk of violating both American, UN, and the newly imposed EU sanctions. This in turn makes it very difficult for international companies to be involved in the country's development, and large international oil companies (IOCs) would miss out on the Iraqi oil Klondike. This will be discussed in Chapters 3 and 4.

The international community nonetheless seems to acknowledge the need for further economic integration in the Middle East. Meghan O'Sullivan, Professor of the Practice of International Affairs at Harvard Kennedy School, writes that Iraq's stability has major implications for regional stability: "literally sitting on the seams of the Middle East, Iraq embraces every fault line of the region".¹⁶ She further points to Iraq as being a potential prime driver for regional integration and that a fractious Iraq with uncertain politics and fragile institutions, will instigate more instability throughout the region. Nonetheless, Iraq's relationship with Iran is still taken as a given. The hostile quality of the relationship is expected to continue and any shared energy strategy is expected to come as a result of political pressure from Tehran: "Iran is interested in gaining and maintaining influence over Iraq's energy strategy and in integrating the energy infrastructure of both countries; it does not want to see Iraq as the dominant producer in such a partnership."¹⁷ I will in the following chapters explore whether this in fact has to be the case. I will explore some of the cooperation efforts that have occurred in the energy sector between the countries, and discuss which factors act as drivers and obstacles to cooperation. This is done in order to provide a more

¹⁵ See for instance "Briefing by U.S. Ambassador to Iraq Christopher R. Hill", *Washington, D.C.: State Department*, 17.08.10, <http://www.state.gov/p/nea/rls/rm/146037.htm> (Accessed 29.10.11)

¹⁶ O'Sullivan, *Iraqi politics and implications for oil and energy*, 9 (Accessed 29.10.11).

¹⁷ *Ibid.*, 27.

nuanced discussion as to why integration is difficult to achieve, but nonetheless occurs to a certain degree within the sector.

1.3 Theoretical framework

As mentioned in the introduction to this chapter, economic integration has long been viewed as a means to lower the likelihood of unstable neighborly relations. This was illustrated by the example of France and Germany establishing a trading agreement after World War II. I will use the theories that explain the European economic integration occurring after the 1950s to the 1970s, as a framework to identify drivers and obstacles to integration between Iran and Iraq post-2003. Regional integration theory is relevant here because it deals with the process in which countries that formerly were not integrated, engage in common activities that might lead to integration. Integration theory can thus provide us with the tools needed to discuss what factors structures the nature of the economic integration within the chosen case studies in Iraq and Iran's electricity and petroleum sectors. With that being said, I will not employ these theories as strict benchmarks for evaluating the relationship between Iraq and Iran. As there are still no theories that sufficiently explain economic integration between non-European nations,¹⁸ I will rather use these theories where they can shed light on the Iraq-Iran relationship.

1.3.1 Definitions

With regards to the research question at hand, I will focus on the integration theories of neofunctionalism and intergovernmentalism. I will employ both theories in the thesis because we may find that integration described in a theory often used to characterize the European integration experience may not adequately describe the developments in a non-European country. Thus, employing elements from both theories will contribute to better understanding the evolution of the relationship between Iraq and Iran. The theories will be discussed further below. In these discussions I will also include information on functionalism and liberal

¹⁸ Karin Dokken and Dag Harald Claes, "Regionalisme og integrasjon mellom stater", in *Anarki, makt og normer: Innføring i internasjonal politikk*, edited by Jon Hovi and Raino Malnes (Oslo: Abstrakt forlag, 2007), 312.

intergovernmentalism, this is done because distinctions within each individual theory may have been more absolute in the European context than with regards to the Iraq-Iran context.

Karin Dokken and Dag Harald Claes write that a region can best be described as a set of states related to each other through geographical proximity and a certain degree of mutual dependency [my translation].¹⁹ Ben Rosamond argues that regionalism is the tendency of geographically proximate territories or states to engage in economic integration and to form free trade areas and (possibly) common markets.²⁰

The term integration is somewhat more difficult to define than regionalism, and no generally accepted definition of integration exists.²¹ However, Ernst B. Haas, a pioneer within the field of integration theory, defined integration as “a term referring *exclusively* to a process that links a given concrete international system with a dimly discernable future concrete system [...] *increasing* the interaction and mingling” [emphasis original].²²

1.3.2 The theories

The theoretical perspectives of neofunctionalism and intergovernmentalism are in many ways stark alternatives. Rosamond writes that in terms of identifying key actors, intergovernmentalists emphasize the centrality of national executives, whereas neofunctionalists point to the supranational institutions as well as national and transnational interest organizations.²³ Neofunctionalism is a theory of change and transformation, whereas intergovernmentalists emphasize international politics as usual, albeit under novel conditions.²⁴ Using the experiences of the European Steel and Coal Community (ECSC) and the European Economic Community (EEC), as their starting point, neofunctionalists set about

¹⁹ Ibid., 288.

²⁰ Ben Rosamond, *Theories of European integration* (London: Palgrave, 2000), 203.

²¹ Dokken and Claes, *Regionalisme og integrasjon mellom stater*, 288.

²² Ernst B. Haas, *Beyond the nation state: Functionalism and international organization* (Stanford: Stanford University Press, 1964), 29.

²³ Rosamond, *Theories of European integration*, 2.

²⁴ Ibid.

the task of describing how the deliberate merger of economic sectors across borders could generate wider economic cooperation.²⁵ They also sought to explain how this economic integration would produce political integration, and how the creation of supranational institutions could accelerate these processes.²⁶ However, the events of West European politics in the 1960s illustrated that national interests were still a strong influence with regards to international exchange.²⁷ The debate between neofunctionalists and intergovernmentalists has marked the integration theory literature since the mid-1960s.²⁸

Functionalism and neo-functionalism

Functionalism is a theory proposing the radical transformation of international politics, and it is associated most notably with David Mitrany. Functionalists make a distinction between what they call high and low politics. High politics can be defined as politics that affect vital national interests, in other words politics that the actors feel relates to sensitive issues for the nation, and that are handled by the nation state's highest powers of authority.²⁹ Functionalists will argue that sensitive issues such as defense and foreign policy (belonging to the category of high politics), are ill suited as starting points for establishing international cooperation because they are likely to enhance divisions already present.³⁰ However, issues of an everyday nature related to welfare will provide a much better vantage point. According to functionalists, issues of this character (low politics) are more likely to lead to cooperative behavior between states.³¹ Acknowledging a common goal and the necessity of a shared effort to reach that goal is central in functionalistic integration theory.³²

²⁵ Ibid.

²⁶ Ibid.

²⁷ Ibid.

²⁸ Ibid.

²⁹ Dokken and Claes, *Regionalisme og integrasjon mellom stater*, 315.

³⁰ Ibid., 293.

³¹ Ibid.

³² Ibid.

In “The Uniting of Europe” Ernst B. Haas criticizes functionalist theory.³³ Haas claims that it is impossible to regard functional integration as independent from the political decision-making process.³⁴ According to neofunctionalism, integration between states occurs through a negotiation process between consequential political forces. These political forces can consist of interest groups, political parties, governments, and international actors.³⁵ The actors will first and foremost become engaged with moderate conflicts. The negotiations between them will be gradual and welfare oriented. The actors will seek to maximize their common interests, and they will gradually delegate more power to common institutions.³⁶

Neofunctionalists use the concept of spillover to explain how, once national governments take the initial steps towards integration, the process will take on a life of its own and sweep governments along further than they anticipated going.³⁷ Put simply, the spillover hypothesis maintained that the integration of coal and steel sectors of a group of industrialized Western European countries would yield substantial benefits for key economic actors. But the full integration of coal and steel sectors would not be accomplished without integration in cognate sectors of the economy.³⁸ Dokken and Claes argue that one important problem with the neofunctionalist perception of how spillover works, is the division the theory makes between low politics and high politics. It is assumed that the process initially will work within low politics issues. However, it is not clear what happens when the process closes in on issues commonly regarded as high politics issues.³⁹ This aspect affects the theory’s applicability, and especially so when it comes to integration outside Europe.

Intergovernmentalism and liberal intergovernmentalism

Intergovernmentalism is an approach that treats states, and national governments in particular, as the primary actors in the integration process. Various intergovernmentalist approaches have been developed in the literature, and these claim to be able to explain both periods of radical

³³ Ernst B. Haas, *The uniting of Europe: Political, social and economic forces, 1950-57* (Stanford: Stanford University Press, 1958), 152.

³⁴ Dokken and Claes, *Regionalisme og integrasjon mellom stater*, 294.

³⁵ Ibid.

³⁶ Ibid.

³⁷ Ian Bache, Simon Bulmer and Stephen George, *Politics of European Integration*, 3rd Edition (Oxford: Oxford University Press, 2011), 9.

³⁸ Rosamond, *Theories of European integration*, 60.

³⁹ Dokken and Claes, *Regionalisme og integrasjon mellom stater*, 295.

change in the EU, because of converging governmental preferences, and periods of inertia, due to diverging national interests.⁴⁰

In intergovernmental perspectives, European integration is a process whereby the governments of states voluntarily enter into agreements to work together to solve common problems.⁴¹ Some constraints operate on the autonomy of national governments, but they remain in control of the process.⁴² Whereas neofunctionalism suggests that although governments started the process, integration soon took on a life of its own that went beyond the control of the governments.⁴³

The intergovernmentalist understanding of integration asserts that governments had much more autonomy over the process than in the neofunctionalist view. The integration process therefore remained essentially intergovernmental: it would go only as far as the governments were prepared to allow it to go.⁴⁴ However, states were seen as independent actors; their governments were constrained by the position of the state in the world system.⁴⁵

Liberal intergovernmentalism is a variant of intergovernmentalism developed by Andrew Moravcsik. Here, demands for integration arise within processes of domestic politics, whereas integration outcomes are supplied as consequence of intergovernmental negotiations. Supranational institutions are of limited importance to processes of integration.⁴⁶ Moravcsik's approach assumed that states were rational actors, however, it was also assumed that the governments of states were playing what Robert Putnam, professor of public policy at Harvard University, called "two-level games": a domestic political process determined their

⁴⁰ Rosamond, *Theories of European integration*, 200.

⁴¹ Bache, Bulmer and George, *Politics of European Integration*, 17.

⁴² Ibid.

⁴³ Ibid.

⁴⁴ Ibid., 12.

⁴⁵ Ibid.

⁴⁶ Rosamond, *Theories of European integration*, 201.

definition of the national interest. This constituted the first part of the analysis and determined the position that governments took with them into the international negotiation.⁴⁷

1.3.3 Applying regional integration theory to Iraq-Iran relations

The problems with the models that exist today with regards to non-European contexts are among other things related to the integrated states' security policies, and the shape of mutual dependence existing between the actors before the integration process started.⁴⁸ In addition, generally speaking the importance of individuals – the political elites – will be more obvious in relation to integration between states in the third world than in European integration.⁴⁹

The neofunctionalism and intergovernmentalism theories may not be able to explain the nature of economic integration between Iraq and Iran perfectly, but they can serve as useful narrators to our discussion. The intergovernmental perspective would suggest that integration is happening by the Iraqi and Iranian governments voluntarily entering into agreements to work together to solve common problems.⁵⁰ Here some constraints operate on the autonomy of national governments, but they remain in control of the process.⁵¹ Whereas neofunctionalism suggests that integration will take on a life of its own that goes beyond the control of the governments.⁵² It will not be the aim of this thesis to come to a conclusion as to which approach has the best fit, but rather employ them both so as to give a more nuanced interpretation on the cooperation efforts between Iraq and Iran in the energy sector.

1.4 Methodology

This thesis has been conducted through the use of qualitative research methods. David Silverman writes “the main strength of qualitative research is its ability to study phenomena

⁴⁷ Bache, Bulmer and George, *Politics of European Integration*, 13.

⁴⁸ Dokken and Claes, *Regionalisme og integrasjon mellom stater*, 312.

⁴⁹ Ibid.

⁵⁰ Bache, Bulmer and George, *Politics of European Integration*, 17.

⁵¹ Ibid.

⁵² Ibid.

which are simply unavailable elsewhere.”⁵³ The methods used by qualitative researchers exemplify a common belief that they can provide a ‘deeper’ understanding of a social phenomena than would be obtained from a purely quantitative methodology. However, there is no agreed doctrine underlying all qualitative social research.⁵⁴

Ideally I would have conducted interviews with governmental officials during my research, making use of intentional investigation, in order to explain the Iraq-Iran relationship in the post-2003 era. However, since conducting such interviews were not possible, the conclusions drawn here must be based on interviews with industry experts, former Iraqi oil sector employees and theoretical assumption. The lack of information acquired directly from Iraqi public officials is attempted remedied by the use of a multitude of first hand and secondary sources.

1.4.1 Design

The analysis of the thesis is conducted through employment of two case studies: one on the Iraqi oil sector, and one on the electricity sector. According to Harry Torrance, a case study is not easily summarized as a single, coherent form of research. Rather it is an approach to research which has been fed many different theoretical tributaries.⁵⁵ Torrance states that what is common to all approaches is the emphasis on study-in-depth.⁵⁶

I chose to examine the nature of economic integration between Iraq and Iran through the energy sector. As the oil sector is equally vital to both countries, the way in which integration occurs in this sector must be seen as an important indicator of what structures the nature of economic integration in other sectors as well. In addition the electricity sector is closely related to the oil sector in Iraq, as both diesel and natural gas are used to produce electricity.⁵⁷ Focusing on cooperation between Iraq and Iran’s oil and electricity sectors will give an

⁵³ David Silverman, *Interpreting qualitative data: Methods for analyzing talk, text and interaction*, 3rd Edition (London: Sage Publications, 2006), 43.

⁵⁴ Ibid., 56.

⁵⁵ Harry Torrance, “Case study: Key concepts”, in *Research methods in the social sciences*, edited by Bridget Somekh and Cathy Lewin (London: Sage Publications, 2005), 33.

⁵⁶ Ibid.

⁵⁷ Iraq Ministry of Electricity, “Operations: How electricity is generated”, *Iraq Ministry of Electricity*, 2010, http://moe.gov.iq/operations/how_electricity_is_generated.html (Accessed 21.03.11).

insight into one side of the cross border interaction between the countries, intentions behind this interaction and the sustainability of the relationship post-2003. In addition, the fact that interaction has already occurred between Iraq and Iran in both the oil and electricity sectors provide for an excellent opportunity to explore the nature of this interaction. It can be argued that the issues discussed here related to the electricity sector illustrate the applicability of integration through low politics. Whereas the issues discussed in relation to the oil sector illustrate the applicability of integration through high politics.

Data reliability

According to Ottar Hellevik, reliability refers to the accuracy with which the data collection has been conducted.⁵⁸ Using several kinds of sources of evidence is one way of heightening data reliability, because one checks information from one source against another.⁵⁹ My analysis is based on both interviews and on secondary literature.

Interviews

In the process of gathering information I conducted interviews with 8 people of various backgrounds that could give me an insight into the current affairs in Iraq, both with regards to the energy sector in general and Iraq's public relations to Iran. I initially contacted the interviewees via e-mail. However, I did not conduct interviews with everyone that replied to my initial e-mail. In some instances I rather e-mailed follow-up questions, depending on that individual's schedule. However, the people I did interview, I mostly interviewed over the phone, partly due to their busy schedules and the fact that some do not reside in Norway. The selected interviewees were largely scholars on Iraq, oil sector technocrats or industry experts. Some of the interviewees were of Iraqi origin and had previously, or did still occasionally reside in Iraq. In this respect they could also provide me with their personal opinions of how Iraqis view Iraq's relationship with Iran. I came in touch with the various interviewees through my contacts in the Gulf Research Unit and Statoil. Some interviewees also later referred me to people they thought would be relevant for my study.

⁵⁸ Ottar Hellevik, *Forskningsmetode i sosiologi og statsvitenskap*, 5. Utgave (Oslo: Universitetsforlaget, 1991), 159.

⁵⁹ Robert Yin, *Case study research: Design and methods*, 2nd edition (Thousand Oaks: Sage, 1994), 33.

The interviews were open-ended and conducted in Norwegian or English. Lesley Noaks and Emma Wincup note in their book on qualitative methods, that in the open-ended interview, in order to achieve rich data, the keynote is active listening in which the interviewer allows the interviewee the freedom to talk and ascribe meanings, while bearing in mind the broader aims of the project.⁶⁰ During the interviews I started out with asking fairly general questions about Iraq-Iran relations or the developments within the energy sector, and the interviewees would then elaborate. The answers to these questions were not regarded as the “truth”, but rather the individual’s personal opinion, or as depicting a tendency of how the topic at hand was perceived within the group to which the respective interviewee belonged; be it a scholar, technocrat or industry expert. Robert Yin suggests that one needs to be cautious of becoming overly dependent on a key informant, and a reasonable way of dealing with this is to rely on other sources of evidence to corroborate any insight by such informants, and to search for contrary evidence as carefully as possible.⁶¹ I therefore relied on other sources of information as well as the information given in the interviews.

In addition to conducting interviews I attended industry related conferences in Oslo: The *Middle East Network Meeting 2010* in November 2010, arranged by INTSOK (Internasjonalisering og samordning av oljeaktiviteten), and the *Transparency in the Iraqi Oil and Gas Industry* lecture in April 2011 arranged by NUPI (Norsk Utenrikspolitisk Institutt). The INTSOK meeting gave me an opportunity to get better acquainted with the oil industry and issues related to foreign businesses wanting to start operations in Iraq. Several of the attendees had been to Iraq and could thus give me their accounts of how the Iraq-Iran relationship has evolved. During this meeting I mostly observed and took notes as I felt this was the best way to get information. In addition, the role as silent observer prevents the interviewer from influencing the interviewees. There were also delegates present from the Iraqi Embassy in Norway, which helped me understand how Iraqi authorities work to promote business in Iraq. I used the same approach when I attended the lecture in April. This lecture also contributed to the assessments made in this thesis because it gave me the opportunity to

⁶⁰ Lesley Noaks and Emma Wincup, *Criminological research: Understanding qualitative methods* (London: Sage Publications, 2004), 80.

⁶¹ Yin, *Case study research: design and methods*, 84.

meet Alaa Mohie el-Deen, Inspector General of the Electricity Ministry, and a large delegation of the Iraqi Extractive Industries Transparency Initiative.

I would have liked to have attended far more such conferences, however I quickly discovered that petroleum related events are fairly expensive. For instance I had hoped to attend the *CWC Iraq Petroleum Conference 2010* in London as many Iraqi oil sector officials were scheduled to appear. However, the price of £2,000 prevented me from doing so. I also discovered that most petroleum related websites like the Iraq Oil Report, MEES, and MEED require readers to become paying subscribers in order to access full-length articles. With a limited budget, this inhibited my ability to access industry related information. In some instances I also had to resolve to reading interviews of key actors made by journalists and analysts with access to such personnel rather than conducting them myself. Nonetheless second hand sources have contributed to my insight on the topic. When relying on written sources, especially on the internet, it is important to cross check the material so as to insure that the information is correct. It is also important to remember that in written work the author's personal opinion may affect the content, thus cross checking and being aware of the writers background and personal opinions on the subject at hand is important. Reading articles from a variety of scholars of different political opinions and backgrounds thus help to insure reliability.

Secondary literature

Information was also gathered through an extensive use of various media outlets. Through the entire research period I read various blogs, newspapers, both in Arabic and English, and I also kept up to date using industry specific web pages.

During my research I also made use of U.S. governmental reports. The U.S. is involved in the reconstruction efforts in Iraq to a large degree and governmental reports describing the reconstruction efforts could thus contribute with important insights, facts and figures that could not be found elsewhere. However, one should remain critical towards information provided by a government that at the time was heavily involved in the reconstruction effort. It is therefore important to keep in mind that the sources may have been written as a means to an

end, i.e. numbers may have been skewed so as to insure increased governmental funding for the reconstruction effort. However, overall the information provided by U.S. agencies is thorough and more critical than information provided by Iraqi and Iranian ministries, especially in the time period before 2008. The U.S. agencies were also usually present in Iraq to conduct the fact-finding missions, something that cannot be said for many other international information providers.

Reliable information on the petroleum and electricity sectors in Iran is still hard to come by, and I largely had to rely on non-Iranian sources because the credibility of governmentally offered information is questionable. I have used information coming from non-governmental sources such as the UN in this regard.

I have also made use of local sources written in Arabic whenever possible, i.e. articles by journalists or scholars from Iraq or Iran present in the region upon the time of writing. I have also to the best of my ability made use of articles by foreign correspondents that were written while present in Iraq or Iran when local media sources were unavailable. This is because nuances of the situation can be lost when reporting from outside the country in question. In addition the situation in Iraq is under rapid change, something that may not be fully captured by someone not present in the country.

Fieldwork

I would have preferred to have conducted fieldwork in Iraq in addition to the interviews in order to get a richer data set. It would also have been beneficial to experience first hand the public opinion on dealings with Iran in Iraq. However, the security situation prevented me from doing so. I contacted Statoil for the purpose of traveling with one of their representatives to Basra, but the costs of traveling to and within Iraq at the time amounted to nearly \$10,000 pr day due to security requirements.

1.5 Plan for the thesis

I have in this chapter discussed the research question for this thesis, and placed this question within a context of the post-2003 environment in Iraq. In the following chapter, I will define and explore the inherent and contingent factors, and provide the reader with a concrete example that demonstrates the degree to which Iraq-Iran relations have entered a new era post-2003, namely the Fakka incident. The Fakka incident will also be used to demonstrate how the inherent and contingent factors form the window opportunity when it comes to economic integration between the countries in the energy sector. *Chapter 3* deals with the first case study of this thesis, namely the oil sector. I have focused on two issues that are relevant with regards to Iraq and Iran interacting in this sector: the issue of joint oil fields and the issue of shared infrastructure. *Chapter 4* deals with the second case: interactions in the electricity sector. Here I focus on the effect domestic politics and international politics can have on the integration process. Both the case study in Chapter 3 and Chapter 4 will demonstrate that the outcome of cooperation efforts change due to variations in the contingent factors, while the inherent factors remain the same. In the final chapter, *Chapter 5*, I present my conclusions.

2 Background

The purpose of this chapter is to provide the reader with relevant background information to the relationship between Iraq and Iran pre-2003 and post-2003. The discussion on the pre-2003 relationship will function as an introduction to the inherent factors mentioned in Chapter 1, while the discussion on the post-2003 relationship will introduce the contingent factors relevant to this thesis. By inherent variables I mean underlying factors that will continue to dictate the premises for further economic integration to a certain degree in the short to medium term perspective.

The inherent factors are here thought to comprise the countries' historical ballast, geography and the legal void caused by the absence of a framework law in the Iraqi energy sector. Even though I argued in Chapter 1 that the importance of history should not be exaggerated when evaluating the current Iraq-Iran relationship, events of the past should not be ignored and their impact on current affairs should not be overlooked either. By historical ballast I mean the legacy created as a result of the countries' previous quest for hegemony and efforts to change the regional dynamics. I use the term geography to describe the issues arising from the fact that Iraq and Iran has yet to properly demarcate its border.

The Iraqi oil and gas framework law also influences Iraq's ability to cooperate with other nations in the energy sector post-2003. No such law has been ratified yet. Even though this fact is likely to change in the future, it has been a source of conflict and tension throughout the time period examined in this thesis, I have therefore chosen to view it as an inherent factor. The lack of an oil and gas framework law serves to cloud the legal roles and responsibilities of the Iraqi authorities. This again has an effect on integration in that it allows for unconventional actors to take part in developing international agreements in the energy sector.

In the section concerning the contingent factors, I will first present some of the characterizations made by contemporary scholars with regards to the post-2003 Iraq-Iran

relationship. An important aspect in this regard is how to interpret Iran's intentions. Some scholars argue that Iran is trying to establish a friendly government in Iraq and secure Iraq as an unstable state, whereas others argue that Iran plays a constructive role in Iraq post-2003. This creates a degree of uncertainty with regards to Iran's true intentions, and whether Iraq and Iran in fact have a common goal, which is postulated as a necessity in functionalistic integration theory for integration to be successful.

As mentioned in Chapter 1, the contingent factors are domestic and international pressures. I will thus provide an overview of relevant Iraqi political actors. Thirdly, I will illustrate the relevancy of the international political community through examining previous attempts made by Iraq and Iran to cooperate. With regards to the role of the contemporary international community, I will demonstrate how the U.S. in particular holds an influencing role.

Lastly, I will review the Fakka incident. The incident is included in order to illustrate the fact that the Iraq-Iran relationship has entered a new era post-2003. The incident also illustrates how the factors previously discussed in this chapter interact.

2.1 The inherent factors

2.1.1 The historical ballast and Iraq's geography

Since Iraq's relationship with Iran is an issue of foreign policy I will explore the relationship through focusing on two main issues in Iraq's previous foreign policy: the quest for regional hegemony and the betterment of Iraq's geographical status. The impact of these two issues can be said to have been complicated through the presence of Iraq and Iran's conflicting ideologies.

Some scholars argue that the fall of the Iraqi monarchy in 1958 also meant the end of peaceful co-existence between Iraq and Iran.⁶² The fall of the Iraqi monarchy in some ways also

⁶² Hiro, *Neighbors, not friends*, 4.

symbolized the shedding of Western influence on Iraqi policy; Iraq and Iran entered a period where they as truly independent states, were free to regulate their relations in the light of their sovereign rights, territorial integrity and national interests.⁶³ While republican Iraq adopted a non-aligned foreign policy by withdrawing from the Baghdad Pact in March 1959, monarchical Iran under Mohammad Reza Shah Pahlavi (r. 1941-1978) signed a Military Cooperation Agreement with Washington.⁶⁴

Iraq's opportunity to regulate its own foreign policy changed the previous dynamics. Central to republican Iraq's overall philosophy was the desire to extend its influence to other countries in the region. In achieving this end Iran was in many ways viewed as its biggest contestant.⁶⁵ In light of this observation the onset of the Iraq-Iran War does not seem wholly unexpected. Some would argue that this war had in fact been a public show of Iraqi and Iranian desire for regional hegemony.⁶⁶ However, Ray Takeyh, argues that the Iran-Iraq war "was not merely an interstate conflict designed to achieve specific territorial or even political objectives. This was a war waged for the triumph of ideas, with Ba'athist secular pan-Arabism contesting Iran's Islamic fundamentalism."⁶⁷ The perception that Iran and the Arab world are contesting two separate ideological ideas, is one that many would argue still prevails in the region to this day. This is also a factor that makes cooperation between Iraq and Iran an issue that contemporary Iraqi politicians not only relate to economics, but rather to the seceding of ideological territory, believing that Teheran has a hidden agenda in establishing a closer relationship to Iraq. This issue will be discussed further in the section concerning the contingent factors.

The events of the Iraq-Iran War demonstrated that the divide between the two nations was deeply rooted in the populations; throughout the War, soldiers on both sides remained

⁶³ Ibid.

⁶⁴ Ibid.

⁶⁵ Raad Alkadiri, "Iraq and the Gulf since 1991: The search for deliverance", in *Security in the Persian Gulf: Origins, obstacles and the search for consensus*, edited by Lawrence G. Potter and Gary G. Sick (New York: Palgrave, 2002), 254.

⁶⁶ Alan Richards and John Waterbury, *A political economy of the Middle East*, 2nd Edition (Colorado: Westview Press, 1996), 342.

⁶⁷ Ray Takeyh, *Iran's new Iraq*, 16.

members of their original military units and did not dissent, despite close ethnical and sectarian ties between the soldiers.⁶⁸

The legacy of Saddam Hussein's foreign policy left a vivid image in the minds of the Iraqi people of brutal and long lasting warfare against Iran. Most Iraqi families were directly affected by the war. The divide between Arabs and Persians, and Sunnis and Shias were also in some respects emphasized by the war with Iran. The Gulf War on the other hand served to demonstrate to Iraq's neighboring countries the steps Saddam was willing to take in order to achieve his goals. This fact it seems, has left an attitude of skepticism towards Iraq's foreign policy objectives among the governments of Iraq's neighboring countries, still present today.

The issue of Iraq's border was also central in forming its foreign policy. Iraq's southern boundaries afford the country minimal coastline and very limited access to the Gulf. The regime perceived the existing geographic status quo as an economic and political vulnerability deliberately imposed by the country's former colonial masters.⁶⁹ Revising these borders in Iraq's favor, and thereby providing the state with a secure maritime outlet was a matter of strategic importance.⁷⁰

According to one of my interviewees "the demarcation of the Shatt al-Arab is one of the major reasons why we are seeing a lot of talk between Iran and Iraq about developing joint fields, but no action".⁷¹ The formal agreement demarcating the border is the Algiers Accord of 1975,⁷² but Iraq and Iran have yet to fully implement its draft of bilateral agreements – one of which commits them to full demarcation of their land boundary.⁷³

⁶⁸ Richards and Waterbury, *A political economy of the Middle East*, 342.

⁶⁹ Alkadiri, *Iraq and the Gulf since 1991*, 255.

⁷⁰ Ibid.

⁷¹ Phone conversation with Ahmed Jiyad, 06.12.10.

⁷² The 1975 Algiers Accord incorporated the Iranian demand, first made over sixty years earlier, that the Thawleg principle be applied to the frontier along the Shatt al-Arab. The thawleg principle meant a division along the river's deepest mid-channel.

⁷³ Bijan Khajehpour-Khoei, "Mutual perceptions in the Persian Gulf: An Iranian perspective", in *Security in the Persian Gulf: Origins, obstacles and the search for consensus*, edited by Lawrence G. Potter and Gary G. Sick (New York: Palgrave, 2002), 245.

Richard Schofield, lecturer in Boundary Studies at King's College, states that there is no international boundary, at least not on paper, with a longer treaty history than that separating Iran and Iraq. The "Treaty of peace and demarcation of frontiers," signed by the Persian and Ottoman empires in May 1639, remains the oldest explicit demarcation agreement between states.⁷⁴

All of Iraq's international boundaries, other than those with Jordan and Saudi Arabia – the boundaries that Schofield claims are in many respects its least complicated and contentious – were defined by international boundary commissions.⁷⁵ According to Schofield "the boundary the European's laid down could hardly be characterized as such, even though for most of its course it followed the western Zagros Mountains."⁷⁶ Of the 223 boundary pillars laid down by the commissioners, only ten used natural or existing objects, ranging from rocky outcrops to shrines.⁷⁷ Only a few of the pillars survived even in the short-term. As British Deputy Commissioner Arnold Wilson commented: "[e]verywhere along the frontier pillars were pulled down a few days after the Commission had left; the more solidly constructed they were the greater the energy displayed in their demolition. It is very doubtful whether one pillar in twenty is still standing".⁷⁸ This demonstrates the reluctance held by the populace to acknowledge the set border. Perhaps it is traces of this reluctance we are witnessing today when both the Iraqi and Iranian governments are unable to agree on a demarcated border. A clearly demarcated border is a cornerstone in the integration process between Iraq and Iran. Without a clearly defined border all issues related to bilateral trade or ownership of natural resources remain issues of potential conflict.

2.1.2 The legal void

⁷⁴ Richard N. Schofield, "Old boundaries for a new state: The creation of Iraq's eastern question", *SAIS Review*, Vol. 26, No. 1 (winter-spring, 2006), 27.

⁷⁵ Richard N. Schofield, "Laying it down in stone: Delimiting and demarcating Iraq's boundaries by mixed international commission", *Journal of Historical Geography*, No. 34 (2008), 397.

⁷⁶ Schofield, *Laying it down in stone*, 418.

⁷⁷ *Ibid.*, 419.

⁷⁸ Report of the proceedings of the Turco-Persian Frontier Commission from July 16 to its termination on October 26, by Captain A.T. Wilson, CMG, Political Department, Government of India, 31 October 1914, in Richard N. Schofield, *Laying it down in stone*, 420.

The third inherent factor is Iraq's legal framework. Iraq adopted a new constitution in 1970 which provided in article 13 and 18 that all national resources, including oil and gas, as well as basic means of production, were owned by the People of Iraq.⁷⁹ Saddam Hussein proposed a new constitution in 1990, which was never officially ratified, but still seems to have substituted the constitution of 1970. The articles 13 and 18 of the 1990 constitution contained verbatim the same language that had appeared in the 1970 version.⁸⁰ According to Rex Zedailis, Professor of Law at the University of Tulsa, the effect of using the same language in both constitutions, was among other things the continuation of the prohibition on concession agreements with foreign oil companies.⁸¹ However, in the mid-1990s, due to UN sanctions and the Gulf War, Saddam decided to negotiate various sorts of oil and gas development agreements with foreign companies, including Production Sharing Agreements (PSAs)⁸² with international oil companies.

A new Iraqi constitution was ratified in 2005, however Iraq has still to ratify the oil and gas framework law. According to the 2005 Constitution's Article 130: "Existing laws shall remain in force, unless annulled or amended in accordance with the provisions of this Constitution".⁸³ With regards to oil and gas regulation this means that the 1990 oil and gas framework is still in place.⁸⁴ The repercussions of this has been an ongoing debate on legal issues related to the oil sector such as distribution of oil rents and the governorates' legal authority to sign contracts with international firms. A draft oil and gas framework law was put forth in 2007 and 2008, however a final law has yet to be ratified.

In the absence of an oil and gas framework law, the ability to sign contracts with foreign companies is deducted from the law of 1990 and the Iraqi Constitution of 2005, Section 4, Article 110 which states: "The federal government shall have exclusive authorities in the

⁷⁹ Rex J. Zedailis, *The legal dimensions of oil and gas in Iraq: Current reality and future prospects* (New York: Cambridge University Press, 2009), 265.

⁸⁰ Ibid.

⁸¹ Ibid.

⁸² An agreement in which in return for access to oil, companies provide percentages of oil produced to the countries, which they in turn market as they so desire, see Robert Springborg, *Oil and democracy in Iraq* (London: Saqi Books, 2007), 11.

⁸³ The Iraqi Constitution, English translation, see http://www.uniraq.org/documents/iraqi_constitution.pdf (Accessed 11.05.11).

⁸⁴ Zedailis, *The legal dimensions of oil and gas in Iraq*, 269.

following matters: Formulating foreign policy and diplomatic representation; negotiating, signing, and ratifying international treaties and agreements; negotiating, signing, and ratifying debt policies and formulating foreign sovereign economic and trade policy.”⁸⁵ This article gives the federal government the right to commit to international cooperation. The federal government is thus in charge when an agreement in the energy sector is signed. In addition Article 114 of the same section states “The following competencies shall be shared between the federal authorities and regional authorities: [...] To regulate the main sources of electric energy and its distribution”, and “To formulate development and general planning policies.”⁸⁶ Thus with regards to electricity sector cooperation the constitution also gives subcentral entities a certain degree of influence.

Due to the lack of an oil and gas framework law the role of the various subcentral governmental entities is still debated. Former oil minister Hussein Shahrstani has argued that actions made by Saddam Hussein under the laws and regulations in the 1990s, supports the activities of the federal government to day in striking oil and gas development agreements with international companies.⁸⁷ The main issues that can be affected by the enactment of an oil and gas framework law include the proper roles and authorities of federal and regional bodies, the terms and extent of potential foreign participation in oil and gas production and development, and potential formulas and mechanisms for equitably sharing oil and gas revenue.⁸⁸

Thus far the deals struck with international companies in Iraq’s energy sector have not been submitted for parliamentary approval. In the absence of an oil and gas law, only Cabinet approval is being sought.⁸⁹ I mention this here because it demonstrates the large role played by the Cabinet with regards to energy sector cooperation. The fact that only Cabinet approval is needed to finalize agreements is a contested issue. The Parliament is particularly critical to

⁸⁵ The Iraqi Constitution, English translation, see http://www.uniraq.org/documents/iraqi_constitution.pdf (Accessed 11.05.11).

⁸⁶ Ibid.

⁸⁷ Zedailis, *The legal dimensions of oil and gas in Iraq*, 267.

⁸⁸ Christopher M. Blanchard, “Iraq: Oil and gas legislation, revenue sharing, and U.S. policy”, *Congressional Research Service*, 03.11.09, <http://www.fas.org/sgp/crs/mideast/RL34064.pdf> (Accessed 11.05.10).

⁸⁹ Ibid.

this arrangement, arguing that the current interpretation of the constitution is flawed. Adnan Janabi, the chairman of the Oil and Energy Committee of the Parliament, has stated that the “standing law requires oil and gas contracts to be approved by Parliament, including deals already awarded in the licensing rounds and a draft joint venture...”⁹⁰ Some argue that the appointing of three deputy prime ministers after the national election in 2010, including one for energy matters, further clouds the distribution of responsibility within the Iraqi government. O’Sullivan states “the creation of this position [Deputy Prime Minister for Energy Matters], and its assumption by former oil minister Hussain Shahrstani, may create confusion as to who is in charge of decision-making related to oil.”⁹¹

2.2 Contingent factors

2.2.1 The character of the post-2003 Iraq-Iran relationship

In the following, I will examine some main tendencies with regards to how scholars perceive the current Iraq-Iran relationship. This discussion will largely focus on the perception that there is a degree of Iranian influence in Iraq. Iran’s motivation for establishing a new relationship with Iraq can have an impact on the degree of integration accomplished. If Iran’s true intention in cooperating with Iraq is merely to exert influence, the degree of integration accomplished will likely be limited. This can be seen as a continuation of the “need of a common goal” argument. As we remember from Chapter 1, functionalistic integration theory holds that acknowledging a common goal, and the shared effort to reach that goal, is a necessity in order to achieve integration.⁹² I will argue that there is more to the current evolvement of the Iraq-Iran relationship than the one-sided Iranian wish to exert influence, and therefore that the prospects for further integration are better in the post-2003 era than in the pre-2003 era.

⁹⁰ Ben Lando, “Parliament wants role in Iraqi oil deals”, *Iraq Oil Report*, 12.04.11, <http://www.iraqoilreport.com/politics/oil-policy/parliament-wants-role-in-iraqi-oil-deals-5587/> (Accessed 10.05.11).

⁹¹ O’Sullivan, *Iraqi politics and implications for oil and energy*, 15 (Accessed 29.10.11).

⁹² Dokken and Claes, *Regionalisme og integrasjon mellom stater*, 293.

Scholars critical to Iran's intentions in Iraq such as Mohsen M. Milani, Professor of Politics at the University of South Florida, claim that by removing Saddam Hussein the U.S. invasion handed Tehran a priceless strategic gift: the opportunity to promote a friendly Shia government in Saddam's stead.⁹³ According to Milani, Iran decided to respond to the situation with a three-pronged strategy: it sought to empower Shias in Iraq, make the occupation of Iraq as difficult and costly for the United States as possible without directly confronting U.S. troops, and develop retaliatory capability inside Iraq to deter the United States from attacking Iran.⁹⁴

In addition to Iran presumably exploiting the religious tie between the countries, scholars such as Vali Nasr, Professor of International Politics at Tufts University, argue that soft links, and political and military bonds were formed between Iran and Iraq as a result of several waves of Shia immigration.⁹⁵ In the early 1970s, Saddam expelled tens of thousands of Iraqi Shias of Iranian origin, who to a large degree settled in Iran.⁹⁶ Many leaders of the main Shia parties, such as the Supreme Council for the Islamic Revolution in Iraq (SCIRI, now the Islamic Supreme Council of Iraq (ISCI)) and Da'wa (including two leading party spokesmen, former Prime Minister Jaafari and the current prime minister, Nouri al-Maliki), were among those who spent years of exile in Iran before returning to Iraq.⁹⁷ Thus, some claim that many of Iraq's current leaders see Iran as a mentor and that Iran is an influential actor in Iraq.⁹⁸

To a certain degree, analysts largely critical of Iran's influence in Iraq, also attribute the unstable security situation in Iraq to Iranian efforts. They argue that as long as Iraq is unstable, the U.S. cannot use Iraq as a platform for targeting Iran. Secondly, these analysts argue that Iran's political allies have been able to secure high-ranking positions in the Iraqi

⁹³ Mohsen M. Milani, "Meet me in Baghdad: U.S.-Iranian tensions flare in Iraq", *Foreign Affairs*, 20.10.10, <http://www.foreignaffairs.com/articles/66750/mohsen-m-milani/meet-me-in-baghdad?page=show> (Accessed 29.10.11).

⁹⁴ Milani, *Meet me in Baghdad* (Accessed 29.10.11).

⁹⁵ Vali Nasr, "When the Shiites rise", *Foreign Affairs*, Vol. 85, No. 4 (2006), 62.

⁹⁶ Ibid.

⁹⁷ Ibid., 61.

⁹⁸ Kenneth Katzman, "Iran-Iraq relations", *Congressional Research Service*, 15.04.10, <http://fpc.state.gov/documents/organization/142761.pdf> (Accessed 27.09.10).

government. Third, that the new Iraqi constitution calls for a highly federalized state which is in the interest of Iran because a decentralized state will be less capable of projecting power.⁹⁹

On the other hand some scholars also claim that Iran has officially played a constructive role in Iraq since 2003: Iran was the first country in the region to send an official delegation to Baghdad for talks with the Iraqi Governing Council, in effect recognizing the authority that the United States had put in power. Iran also extended financial support and export-credits to Iraq and offered to help rebuild Iraq's energy and electricity infrastructure.¹⁰⁰ Following this line of argument Edmund Herzig, Professor of Persian Studies at the University of Oxford, claims that in the fields of trade, energy, transport and infrastructure, Tehran recognizes the need for regional cooperation.¹⁰¹

Herzig argues that Iran, emerging from revolutionary turmoil and a lengthy war, was, and still is, "looking for markets for non-oil exports, for partners in energy development, for help in integrating into the global economic system, and for the infrastructure to allow it to take advantage of its strategic location [...]"¹⁰² According to Herzig state led trade promotion and infrastructure projects have been central to Iran's regional policy.¹⁰³ This means that the developments we are currently seeing between Iraq and Iran could just as well be a result of Iran's want to establish a larger degree of regionalism. However, if one is to follow the more critical line of argument, the abovementioned Iranian initiatives could also merely be part of Tehran's efforts to influence Iraq through economic incentives. This would support the claim that Iran publicly calls for stability while subverting Iraq's government and illegally sponsoring anti-government militias.¹⁰⁴ This duality in the perceived character of the relationship creates a degree of uncertainty, both for the international community at large, but also for Baghdad. The arguments presented by the more pessimistic scholars such as Nasr, are largely based upon the historical quality of the relationship, whereas the idea of Iran wanting

⁹⁹ Joseph Felter and Brian Fishman, *Iranian strategy in Iraq: Politics and 'other' means* (West Point: Combating Terrorism Centre, 13.10.08), 6, see <http://www.hsdl.org/?view&doc=104039&coll=public> (Accessed 27.09.10).

¹⁰⁰ Nasr, *When the Shiites Rise*, 60.

¹⁰¹ Edmund Herzig, "Regionalism, Iran and Central Asia", *International Affairs*, Vol.80, No.3 (2004), 508.

¹⁰² Ibid.

¹⁰³ Ibid.

¹⁰⁴ Felter and Fishman, *Iranian strategy in Iraq*, 6.

to establish regionalism requires new thinking with regards to Iranian foreign policy objectives.

In any event one should not forget that even if the Iranian strategy were to be of the negative quality suggested by some of the analysts mentioned here, it is not given that the Iraqi people will automatically follow Tehran's lead. According to Joseph Felter, research fellow at the Hoover Institution, and Brian Fishman, research fellow at West Point, many Iraqis, including the Shia population, do not care for institutions such as the ISCI, precisely because of its close relationship with Iran.¹⁰⁵ In 2007, ISCI changed its name and abandoned the title Supreme Council for Islamic Revolution in Iraq, which had implied a closer relationship with Tehran.¹⁰⁶ ISCI also publicly stated that Grand Ayatollah Ali al-Sistani is its most important religious influence, thereby distancing the organization from Iranian Supreme Leader Ayatollah Khamenei.¹⁰⁷ These moves can be seen as a result of Iran's lacking popularity with the Iraqi population. Felter and Fishman further claim that Iran's militia allies in Iraq tend to oppose Iranian political influence there. Moqtada al-Sadr and others are willing to accept Iranian training and weapons to pursue their political and religious aims, but they remain hostile to Iranian political influence.¹⁰⁸ In addition the most pro-Iranian factions generally fared poorly in the 2009, provincial elections and again in the 2010 national elections for the National Assembly.¹⁰⁹ This point is also made by Reidar Visser, senior research fellow at NUPI, who claims there is much to suggest that Iran's active political role in Iraq is not considered legitimate by a majority of Iraqis, whether Sunni or Shia.¹¹⁰

I have in this section laid out some of the viewpoints when it comes to evaluating the current character of the Iraq-Iran relationship. Felter and Fishman point out that even though Iran offers Iraq's government moral support, it also keeps arming militias that undermine governmental authority, funnels advanced weapons to attack its enemies, but provides humanitarian aid for the Iraqi people, and encourages free elections, but attempts to

¹⁰⁵ Ibid., 8.

¹⁰⁶ Ibid.

¹⁰⁷ Ibid.

¹⁰⁸ Ibid.

¹⁰⁹ Katzman, *Iran-Iraq relations*, 2.

¹¹⁰ Reidar Visser, *Iran's Role in post-occupation Iraq: Enemy, good neighbor, or overlord?* (New York: The Century Foundation, 2009), 6.

manipulate their results.¹¹¹ With this in mind, pointing out the exact trajectory of the new Iraq-Iran relationship is complex. Exploring several possible scenarios, and not just the one focusing on historical ballast and Iran's potential wish to exert its influence in Iraq, become all the more important.

2.2.2 Domestic pressures: Political constituencies and other actors

From the introduction to this section it becomes clear that the local political scene should be considered a potential driver and also obstacle towards further integration. This is also in line with the intergovernmentalist approach, whereby national executives are perceived to have a leading role in the integration process.

The emerging Iraqi political scene has been marked by groups of established parties running on joint lists, often grouped on sectarian or ethnic grounds. These lists are not necessarily stable. The fact that some parties are seen as representing highly local, ethnic or religious viewpoints, has in some instances contributed to the sectarian divide within Iraq.

With regards to energy cooperation with Iran, I will here point out key actors and their positions. This is done because these actors may affect the degree of cooperation achieved between Iran and Iraq. I will focus on four main categories of actors: the Shia politicians, the Sunni politicians, the regional actors, and the technocrats.¹¹² As is the case with regards to all generalizations, there are of course nuances within each group, and membership to one group does not automatically exclude membership to another. The presence of these actors is relevant to the progress of integration between Iraq and Iran because they all claim to represent the people of Iraq. As we will see in Chapter 3 and 4, the political actors use the debate on Iraq's relationship with Iran to their own benefit so as to demonstrate their position as oppositional forces to al-Maliki and his government. However, when public pressure rises, as it did with regards to the population's demand for more electricity, the political actors were

¹¹¹ Felter and Fishman, *Iranian strategy in Iraq*, 13.

¹¹² I could have discussed the impact of Kurdish interest groups here as well, however since the individual cases I will discuss later, particularly those in the oil sector, are related to issues in the South, the influence of Kurdish interest groups are limited.

to some degree forced to alter their foreign policy schemes and commit to cooperation agreements with Iran in order to keep their public and political positions. The presence of public pressure thus influence the degree to which domestic pressures can contribute to closer economic integration between Iraq and Iran.

The Sunni politicians

The Sunni politicians in Iraq are often claimed to represent the more nationalist political sentiment. This sentiment is related to the political milieu of the previous regime. The Sunnis are also regarded as being closer to the Arab countries in the region, whereas the Shias are generally considered to be closer to Iran. With respect to cooperation with Iran, Sunni nationalists see the importance of maintaining Iraqi independence and not letting the country become a vassal for Iranian policies.

In the post-2003 era Sunni voters and politicians initially played a lesser role in the Iraqi political decision making process than the Shia and Kurds. This was due to the Sunni boycott of the legislative referendum in 2005 and the following elections. In addition, the de-Ba'athification process¹¹³ hindered some Sunni politicians from taking part in public politics. As an example, the de-Ba'athification process disqualified 72 of al-Iraqyyia's candidates in the 2010 elections.

In the 2005 parliamentary elections the main Sunni coalition was the **Iraqi Accord Front**. The **Iraqi Front for National Dialogue** is the more secular and nationalist of the Sunni coalitions.¹¹⁴ The coalitions seek to establish a strong and independent Iraq. With regards to the oil sector the coalitions favor lessening international interference. Cooperation agreements are thus an issue of debate regardless of the countries involved. At the same time pragmatic considerations have to be made; Iraq needs to develop its oil sector as quickly as possible in

¹¹³ The de-Ba'athification process was started by the CPA. The process disestablished the Ba'ath party and banned former members from future employment in the Iraqi public sector. See the CPA webpage: http://www.iraqcoalition.org/regulations/20030516_CPAORD_1_De-Ba_athification_of_Iraqi_Society_.pdf

¹¹⁴ Lionel Beehner, "Background", *Council of Foreign Relations*, 12.12.05, <http://www.cfr.org/iraq/iraqi-political-coalitions-parliamentary-elections/p9391> (Accessed 29.10.11).

order for reconstruction to pick up speed. Thus, Sunni politicians may be willing to go further in cooperating with international companies, including Iranian ones, at present than what will be the case in the future.

The Sunni-dominated areas of Iraq have few proven crude oil or natural gas deposits, although petroleum geologists differ as to whether substantial oil deposits may be found in Iraq's western Anbar governorate in the course of future exploration.¹¹⁵ Sunni negotiators opposed Iraq's new constitution in 2005 in part because it empowers regions in oil production and revenue allocation policy, rather than the central government.¹¹⁶ The Association of Muslim Scholars and the Iraqi Accord Front also criticized the draft oil legislation put forward in 2007 and 2008.¹¹⁷

As we will see in the next section members of the Sunni coalitions used the Iranian occupation of the Fakka oil well to criticize the amount of Iranian influence in Iraq. At the same time, the review of electricity sector agreements between Iraq and Iran in Chapter 4 reveals that the Diyala governorate, which holds a large Sunni population, is one of the governorates in Iraq that currently has signed two cooperation agreements with Iran over power imports. This seems to underline the argument that the attitude towards cooperation with Iran cannot always successfully be divided along sectarian lines. Regional belonging also plays a large role, as does public pressure.

The Shia politicians

As mentioned in the above, the Shia political actors and parties are traditionally regarded as being close to Iran. This is also related to historical facts; during the reign of Saddam Hussein many members of the political opposition and Shia personalities went into exile in Iran.

¹¹⁵ Blanchard, *Iraq: Oil and gas legislation* (Accessed 11.05.10).

¹¹⁶ Ibid.

¹¹⁷ Sabah Jerjes, "Iraqi Sunni Faction Calls for Ban on PSAs," *Platts Oilgram News*, Vol. 85, No. 81 (25.04.07), in Blanchard *Iraq: Oil and gas legislation*.

The most openly pro-Iranian Shia organizations are the ISCI and the Sadrists. **The Sadr organization** is largely dependent upon Iranian support and is thus seen by outsiders as promoting the Iranian stance in Iraq. However, the leader of the organization, Moqtada al-Sadr, has taken a strong stance against the involvement of IOCs in Iraq's oil industry on the grounds of nationalism.¹¹⁸ The sadrists have a proved ability to rally popular support on the streets of major cities, influencing political decisions in that way.

The Shia political middle ground seems to be held by parties such as the **Da'wa Party**. This party is also Islamist, but in a less absolute manner than the ISCI. Current prime minister al-Maliki belongs to this middle path. He is often seen as pro-Iranian while at the same time being concerned with the U.S. actions and reactions to his political activities. An example to this effect is provided in the review of the Fakka incident.

The ISIC and Da'wa parties were members of the **United Iraqi Alliance** during the 2005 parliamentary elections, and claimed to have the support of Grand Ayatollah Ali al-Sistani, the religious leader of Iraq's Shia population. This added to the coalition's religious streak and has been viewed as a fact that helped the coalition in establishing closer ties with Tehran.

Predominantly Shia parties, including Maliki's State of Law and the Sadrists, gained control of the prime minister's post and of 24 ministerial positions after the 2010 parliamentary elections. It is interesting to note that in the 2010 parliamentary elections, al-Maliki formed a new coalition with a less religious profile than that of the United Iraqi alliance, called the **State of Law Coalition**. The coalition also adopted a more nationalistic discourse. Some Sunni political figures, mainly from the Anbar province, also joined al-Maliki's coalition, due to the fact that al-Maliki focused on the establishment of a non-sectarian Iraq. This serves to underline the changing quality of the Iraqi political scene.

¹¹⁸ O'Sullivan, *Iraqi politics and implications for oil and energy*, 18.

When Al-Maliki formed the State of Law, his former allies of the United Iraqi Alliance formed the **Iraq National Alliance** in response. This coalition had a stronger religious profile, something that they have played on in order to undermine al-Maliki's candidacy.

After the 2010 election the State of Law Coalition and the Iraqi National Alliance joined forces. Thus the final alliance between the two coalitions resembled the original United Iraqi Alliance coalition of 2005. There were quite a few controversies between the Shia parties involved in this new alliance. This underlines the point that there are a variety of nuances present within the Shia political sphere and that one should not conclude that the Shia operate as one coherent group politically, even when they are a part of the same coalition.

On the other far end of the Shia political specter are the Shia nationalists. A main political figure representing the nationalists is Ayad Allawi, a secular Shia. In the 2005 parliamentary elections Allawi was a member of the **Iraqi National List**. This list called for the Iraqi reintegration into the Arab world, and consisted of a wide spectrum of mostly secular Shia, Sunni and Kurdish parties. The bloc calls for improved relations with Iraq's neighbors and renounces sectarianism. With regards to Iran, these last two goals have been argued to contradict each other. Iran is being accused of meddling in Iraq's domestic political scene in a way that enhances sectarian struggles, thus striving to achieve better neighborly ties may to a larger degree refer to Iraq's Arab neighbors, and not Iran.

The nationalist Shia parties have struggled with accusations concerning whether they are anti-Islam. In the case of Allawi, he has also struggled with accusations of being pro-Ba'athist. In the 2010 parliamentary elections Allawi was a candidate with the **Iraq National Movement** (Iraqiyya).

Shia political parties have dominated the Iraqi government since 2006. One should not disregard the effect this has had on Iraq's ability to establish cooperation agreements with Iran in the energy sector. Although the influence of the Ministry of Oil (MoO) is not to be

exaggerated, it is worth mentioning that the previous oil minister Hussein Shahrستاني (Shia, State of Law) held his position as Oil Minister from May 2006 until February 2011. From June 2010 until February 2011 he also served as acting Minister of Electricity after the resignation of Karim Wahid in June 2010. It is possible that cooperation agreements between Iraq and Iran were more easily facilitated due to the presence of a top government official affiliated with a largely Shia dominated coalition, not entirely hostile towards Iranian policies. In the new Iraqi government formed after the March 2010 elections, Shahrستاني holds the position of Deputy Prime Minister of Energy. Electricity Minister, Karim Wahid (Shia, United Iraqi Alliance) also held his post from May 2006 until June 2010. After being held briefly by Shahrستاني, the position of Electricity Minister was given to Raad Shallal al-Ani (Iraqiyya) in February 2011. It is presently too early to say whether this change has affected the progress of cooperation deals in the electricity sector.

Subcentral actors

Subcentral actors will here refer to the individual governorates and organizations. Provincial activism is perhaps the greatest unappreciated challenge to efforts to construct and consolidate post-Saddam Iraq today.¹¹⁹ According to O'Sullivan the provincial empowerment is most problematic in the realm of oil and gas, in large part because of many ambiguities in the constitution and law and because of the lack of an agreed framework on the sharing of revenues.¹²⁰ The Basra governorate holds most of Iraq's proven oil resources, hence local political actors exert influence over the oil sector and the ongoing debate on the oil and gas legislation. Governorates may wish to establish cooperation agreements with Iran on their own, regardless of whether this seems to be in contradiction to their religious or political status.

The power held by the Iraq Federation of Oil Unions has also been demonstrated in the past. Ben Lando, Bureau chief of IraqOilReport.com, writes "the unions have halted production before – when they weren't being paid, when their salaries were decreased, when foreign

¹¹⁹ Ibid., 23.

¹²⁰ Ibid., 24.

companies were given control of facilities – and succeeded”.¹²¹ The Federation has voiced its members’ strong opposition to the proposed draft of the hydrocarbon framework legislation, and has demonstrated a capacity to disrupt oil production and refinery operations with strikes.¹²²

Technocrats

This last group consists of sector related experts and workers, my interviews largely reflect the opinions of members of this group. With regards to oil sector cooperation technocrats seem to argue that cooperation with Iran is unproblematic. With regards to developing joint fields such cooperation is regarded as the optimal solution in order to avoid early field depletion. With regards to building shared infrastructure the technical aspect is viewed as uncomplicated. However local issues such as placement of for instance the Basra-Abadan pipeline and the type of pipeline to be constructed makes this issue somewhat more technically complicated than that of developing joint oil fields.

Technocrats can be seen as influencing the decision-making process through lobbying and through their presence in various bilateral committees established by Tehran and Baghdad.

2.2.3 International pressures

The second contingent factor relevant here is the influence international pressures have on the relationship between Iraq and Iran. I will illustrate the importance of this factor through examining previous cooperation attempts. I will argue that the combined effect of the historical ballast, international pressures, and the domestic pressures in both Iraq and Iran, in addition to the countries’ lack of common goals, have dictated the result of these attempts.

¹²¹ Ben Lando, “Analysis: Unions could sway Iraqi oil law”, *UPI*, 28.03.07, http://www.upi.com/Business_News/Energy-Resources/2007/03/28/Analysis-Unions-could-sway-Iraq-oil-law/UPI-33531175118923/ (Accessed 11.05.11).

¹²² Ibid.

Pre-2003 cooperation attempts

After the Gulf War, Washington adopted a policy of “dual containment” towards Iraq and Iran and branded the countries as the region’s two “rogue” states.¹²³ Iran and Iraq’s common sanctions experience led Iraq to see Iran as a potential ally. Iraqi officials called for closer bilateral ties as a means of relieving the isolation imposed on both states by the U.S.¹²⁴ Iraqi leaders appeared to hope that signs of improving relations between Baghdad and Tehran would prompt a regional and international rethink of strategy in Iraq’s favor.¹²⁵ Thus, out of this renewed perception of the countries’ place in the international community also came a renewed rhetoric with regards to bilateral cooperation. However, partner at PFC energy, Raad Alkadiri, notes that despite the renewed rhetoric actual cooperation between the two states was limited.¹²⁶

In addition to the “dual containment” policy, the change in Iranian foreign policy after the war with Iraq and the death of Ayatollah Khomeini in 1989 also promoted cooperation: Iran accorded regional relations and coalition-building an increasingly important place in its foreign policy.¹²⁷ This attitude stood in contrast to the previous policy which some would argue helped alienate the country from the rest of the region and the global society at large. Tehran’s policy of “Neither East nor West, but an Islamic Republic”, its commitment to exporting the revolution, its support for militant Islamic and opposition groups in other Middle Eastern countries, its conduct in the war with Iraq, and its general militancy and rejection of the international order and international norms, all contributed to Iran’s alienation.¹²⁸

Gestures designed to improve ties between Iran and Iraq became even more frequent after Khatami’s assumption of the presidency in August 1997. As an example the Revolutionary Command Council passed a decree allowing Iranian pilgrims to visit Shia holy sites in Iraq.¹²⁹

¹²³ Alkadiri, *Iraq and the Gulf since 1991*, 266.

¹²⁴ Ibid.

¹²⁵ Ibid.

¹²⁶ Ibid.

¹²⁷ Herzig, *Regionalism, Iran and Central Asia*, 503.

¹²⁸ Ibid.

¹²⁹ Alkadiri, *Iraq and the Gulf since 1991*, 267.

In doing so, Baghdad acquiesced implicitly to a longstanding Iranian condition for better relations. Meanwhile there was also progress toward solving the issue of prisoners of war (POW), a central Iraqi prerequisite for reconciliation. A series of prisoner swaps in early 1998 culminated with the handing over of 800 Iraqi POWs in April as a part of an Iranian pledge to release almost 6000 Iraqi captives.¹³⁰

Nonetheless extensive cooperation would still prove hard to establish. While changes in Iran's foreign policy and strategic changes in the region enhanced the value of bilateral relations, the influence of the countries historical ballast still prevailed; each country continued to support armed organizations dedicated to the removal of the neighboring regime.¹³¹ This fact demonstrates that the two states conducted two-faced policies in relation to one another; there was a discrepancy between what was discussed and what was done with regards to establishing a closer relationship. Iran felt that it should remain attentive to risks associated with any signs of growing military power of Iraq.¹³² Here it is important to remember that prior to the invasion of Iraq in 2003 the extent of the threat posed by Saddam was unknown. To give an example, in September 1998 Chairman of the United Nations Special Commission (UNSCOM), Richard Butler, stated "with respect to a prohibited operational missile force... we can't say with certainty that they don't", in reference to whether Iraq had illegal missiles.¹³³ Saddam's Iraq was hard to penetrate and good intelligence was hard to come by. Thus both the UN and the international community at large deduced from the little evidence there was, that Saddam had Weapons of Mass Destruction (WMD) and that he was willing to use them as he had done before in the 1980s.¹³⁴ This illustrates the uncertain environment under which the Iran-Iraq relationship existed before 2003. Believing that Iraq posed a threat was safer than the alternative. After the invasion in 2003 this situation has changed and both Iran and the international community have direct access to viable information. This fact may act as a driver when it comes to establishing a more fruitful relationship between the

¹³⁰ Ibid.

¹³¹ Ibid.

¹³² Saideh Lotfian, "A regional security system in the Persian Gulf", in *Security in the Persian Gulf: Origins, obstacles and the search for consensus*, edited by Lawrence G. Potter and Gary G. Sick (New York: Palgrave, 2002), 119.

¹³³ Ibid.

¹³⁴ Robert Jervis, "Reports, politics, and intelligence failures: The case of Iraq", *Journal of Strategic Studies*, Vol.29, No.1 (February 2006), 19.

countries. However, as mentioned earlier, the nuclear threat posed by Iran is still a factor that creates insecurity in the international community.

With regards to previous attempts to mend the Iraq-Iran relationship, the shared sanctions experience and the change in Iranian policy were not enough to establish lasting cooperation. The initiative to cooperate came as an answer to policies forced on the countries from the outside, rather than as the result of a shared initiative to become more integrated and create common economically beneficial policies. Although the countries individually acknowledged the benefits of cooperating, one could argue that the efforts to cooperate in the post-Cold War era rather reflected the individual state's goals and not a common one. Leaning on the functionalist view of integration, this meant that the probability of integration efforts succeeding was limited.

The current political environment in Iraq and Iran is different in many ways when compared to the pre-2003 era. The Cold War is no longer dictating international foreign policies and the removal of Saddam Hussein has installed a larger degree of transparency when it comes to Iraqi foreign policy objectives. The issue of regional hegemony and ideological struggles also seem somewhat less relevant. It can therefore be argued that the prospects for change in the Iraq-Iran relationship has improved. However, as we will see in Chapters 3 and 4, international and domestic pressures in both countries are still influencing the degree of cooperation.

Role of the contemporary international community

Post 2003, Washington holds a central position with regards to the international community's influence on the Iraq-Iran relationship. This is in large part due to its role in the invasion of Iraq in 2003 and the following reconstruction effort. The current bilateral relationship between Iraq and the U.S. is shaped by two agreements: the 2008 Security Agreement and the 2008 Strategic Framework Agreement. The first provides the legal framework for the presence and conduct of U.S. troops in Iraq. The second agreement lays out a vision of an ongoing bilateral relationship between Iraq and the United States grounded in shared,

nonmilitary realms. The agreement speaks of exchange and assistance to Iraq in scientific, cultural, diplomatic, educational, and other areas.¹³⁵ These agreements demonstrate the extent of Washington's interest in Iraq, and the role Washington envisages for Iraq in the region. In order to establish the degree to which the international community at large can affect further economic cooperation between Iraq and Iran, a review of Iraq's oil organization is in order.

"We have a particular arrangement in Iraq at the moment when it comes to the structure of the oil industry. Only the national companies pay the government; the international companies serve the national companies... There are three extractive companies, these extract oil, but do not sell, and the government only pays them to cover expenses. SOMO is responsible for signing contracts with international companies, however it does not receive money. The international companies pay [the revenue earned] to the DFI. 95 percent of the revenue is transferred from DFI to the Central Bank... The Iraqi government does not receive taxes etc. from international oil sales, only revenue."¹³⁶

The reason for this "particular arrangement" is revealed in the content of UN Security Resolutions (UNSCR) 1483, 1546, 1637, 1723, 1790, 1859, 1905, and 1956. UNSCR 1483 establishes the creation of the Development Fund for Iraq (DFI) and the International Advisory and Monitoring Board (IAMB).¹³⁷ The consequent resolutions have extended the mandate of these institutions. UNSCR 1956 extended the mandate of DFI and IAMB until 30.06.11.¹³⁸ The IAMB was tasked with overseeing all of Iraq's hydrocarbon export revenue. The revenue from oil and fuel export goes into the DFI. Ben Lando states "[DFI] is essentially a massive escrow account overseen by the IAMB at the Federal Reserve Bank of New York that ultimately feeds Iraq's budget."¹³⁹ Iraq's State Oil Marketing Organization (SOMO) remains responsible for the sale and export of Iraqi crude oil.¹⁴⁰

¹³⁵ O'Sullivan, *Iraqi politics and implications for oil and energy*, 28.

¹³⁶ Statement made by Alaa Mohie el-Deen, Inspector General of the Electricity Ministry, and Secretary General of IEITI, during the NUPI conference "Transparency in the Iraqi Oil and Gas Industry", 07.04.11.

¹³⁷ Paragraph 20 of the UN Security Council Resolution 1483, 2003, see <http://daccess-dds-ny.un.org/doc/UNDOC/GEN/N03/368/53/PDF/N0336853.pdf?OpenElement> (Accessed 05.05.11).

¹³⁸ UN Security Council Resolution 1956, 2010, see <http://daccess-dds-ny.un.org/doc/UNDOC/GEN/N10/694/83/PDF/N1069483.pdf?OpenElement> (Accessed 05.05.11).

¹³⁹ Ben Lando, "UN oversight of Iraqi oil money struggling to adapt", *Iraq Oil Report*, 28.06.10, <http://www.iraqoilreport.com/politics/oil-policy/un-oversight-of-iraqi-oil-money-struggling-to-adapt-4861/> (Accessed 05.05.11).

¹⁴⁰ Paragraph 21 of the UN Security Council Resolution 1483, 2003, <http://daccess-dds-ny.un.org/doc/UNDOC/GEN/N03/368/53/PDF/N0336853.pdf?OpenElement> (Accessed 05.05.11).

One consequence of this arrangement is that the revenue earned from Iraqi oil sold on the international market does not fall directly into the hands of the Iraqi government. This establishes the degree to which Iraq is sensitive towards the decision making process of the international community. The DFI has a certain degree of control over where the money is allocated, and as monetary interaction with Iran is sanctionable, the DFI could withhold money. The role played by DFI will end as soon as the Iraqi government is ready to take over the responsibility.

The UN, U.S., and EU have in place sanction regimes against Iran. Initially the UN and EU sanctions were intended to curb Iran's nuclear capability, however in recent years they have increasingly targeted the energy sector overall, as well as the banking sector. The U.S., UN, and EU sanctions have also become increasingly streamlined, thus lessening the presence of loopholes. This complicates Iraq's ability to cooperate with Iran while at the same time upholding a good relationship with the international community.

2.3 The Fakka incident

To illustrate the combined effects of the issues discussed in this chapter's previous sections, I will now give a concrete example in the form of the Fakka incident. The Fakka incident refers to the Iranian occupation of an Iraqi oil well on December 19th 2009. During our e-mail correspondence Walid Khadduri, former editor of Middle East Economic Survey, used the Fakka incident to illustrate a likely scenario when it comes to contemporary Iraq-Iran relations: "the Fakka incident resulted [*Sic*] because of the lack of a clear border demarcation, and the frailure [*Sic*] of the oil authorities to draw a clear boundary in the field."¹⁴¹ While some feel the Fakka incident demonstrated the innate hostile quality of the bilateral relationship, I feel it gives an insight into the workings of Iraqi politics and the evolvement of the relationship in the post-2003 era. The two governments handled this incident through

¹⁴¹ E-mail correspondence with Walid Khadduri, 08.11.10.

negotiating and lasting dialogue, something that would not have been a likely scenario pre-2003.

The Fakka field is located about 200 miles from Baghdad in southeastern Iraq, and straddles the frontier. It has estimated reserves of 1.55 million barrels and is part of a cluster of fields Iraq put up for auction to major oil companies in June 2009.¹⁴² Peg Mackey, journalist at Energy Intelligence, and Alex Schindelar, Bureau Chief at Energy Intelligence, write that spats over Fakka and neighboring Abu Ghirab – both of which stretch into Iran – occur periodically.¹⁴³

The instantaneous reply to the Fakka incident from government spokesman Ali Dabbagh (*State of Law*) was: “the council views the Iranian move as a violation of Iraq’s sovereignty and urges Iran to withdraw its troops from the well and bring down the Iranian flag they raised above the well.”¹⁴⁴ Iraqi officials said that Prime Minister al-Maliki called a meeting with the national security officials on the 19th to determine a response.¹⁴⁵ However, an actual statement from the prime minister himself came ten days after the incident. In the statement al-Maliki declared that the Iranians would not get “one drop of Iraqi oil” or “one meter of Iraqi land.”¹⁴⁶ Speculations as to why the prime minister took ten days to make his statement have been many. Some believe the Iraqi elections that were to be held in March 2010 had an effect on this matter, but also al-Maliki’s relationship with Iran.

With regards to the assumption that Shia politicians generally want close ties to Teheran the reactions of the Iraqi government were confusing. On the one hand the Shia dominated government issued a simultaneous response on the day of the incident, urging Iran to

¹⁴² Chip Cummins and Hassan Hafidh, “Iranian troops occupy oil field in Iraq, stoking tension”, *Wall Street Journal*, 19.12.09, <http://online.wsj.com/article/SB126114921937697207.html> (Accessed 16.02.11).

¹⁴³ Peg Mackey and Alex Schindelar, “Briefing: Iraq’s border fields”, *Energy Intelligence Group*, 15.01.10, http://www.energyintel.com/print_me.asp?document_id=654078 (Accessed 16.02.11).

¹⁴⁴ Cummins and Hafidh, *Iranian troops occupy oil field in Iraq* (Accessed 16.02.11).

¹⁴⁵ Timothy Williams and Erick Schmitt, “Iraq says Iran occupied a border oil field”, *The New York Times*, 19.12.09, <http://www.nytimes.com/2009/12/19/world/middleeast/19iraq.html> (Accessed 16.02.11).

¹⁴⁶ Michael Hastings, “Border oil dispute worsens fears about Iran’s influence over Iraqi government”, *The Washington Post*, 09.01.10, <http://www.washingtonpost.com/wp-dyn/content/article/2010/01/08/AR2010010803654.html> (Accessed 16.02.11).

withdraw. On the other hand, even though the wording was clear and non-submissive, the personal response from the prime minister himself was delayed, and some would claim this fact alone served to undermine the message. This confusing attitude could also serve to illustrate that even though certain politicians look more favorably on close relations to Iran, they sometimes have to compromise. Since the Fakka incident relates directly to Iraqi security politics it seems likely that it also is an incident where politicians who are otherwise pro-Iran chose to appear more nationalist, perhaps also with the upcoming parliamentary elections in mind. The compromise made at the time seemed to involve taking a clear stance against the Iranian action, but at the same time not being too provocative in terms of calling for a military response. The statement of Hassan al-Sneid, thence member of the former *United Iraqi Alliance*, illustrates this sentiment: while saying that “Iraq is under attack[...]” al-Sneid called for “resolving this matter through diplomatic channels immediately because Iraq wants normal relations with neighboring countries” [my translation].¹⁴⁷

However, there is also something to be said for the government wanting to downplay the incident. When trying to rebuild Iraq, the Iraqi authorities, regardless of individual members’ previous relationship to Iran, are dependent upon outside help, and one of the countries that have been most eager to bestow it is Iran. An instant military response from Iraq on the matter, without first attempting to solve it through dialogue, could have threatened to destroy the relationship.

The Iraqi Shia actors did not however act as one coherent group. The reactions from the Shia actors in the South against Iran were strong: Aawadh al-Abbidan announced that the Lions of God Brigade, a group made up of 126 southern tribes, mostly Shia, was ready to defend Iraq’s oil fields.¹⁴⁸ Another Shia tribal leader in the south, Kadom al-Rubat, called the incursion “an insult to the martyrs who gave their lives in the war against Iran”.¹⁴⁹ This shows that regional ties can be just as strong as religious ones in Iraqi politics.

¹⁴⁷ Aljazeera, “Iran continues to Occupy the Fakka field “[my translation], *Aljazeera*, 23.12.09, <http://www.aljazeera.net/NR/exeres/F8959230-A32F-4C2B-98CF-30EC7392BA15.htm> (Accessed 16.02.11).

¹⁴⁸ Hastings, *Border oil dispute worsens fears about Iran’s influence over Iraqi government* (Accessed 16.02.11).

¹⁴⁹ Ibid.

With regards to the response from actors generally seen as nationalists, Zafir al-Ani of the *Iraq Accord Front* on the 23rd of December, called on “the U.S. to provide direct support to defend Iraq against Iranian attacks as stated in international conventions, because if Iran is not deterred internationally it will persist to flex its muscles regionally [my translation].” He further stated that “the dependency of some of Iraq’s parties to Tehran, has opened Iran’s appetite to swallow the land and wealth of Iraq” [my translation].¹⁵⁰ The statement shows a more aggressive tone with regards to military repercussions than the *United Iraqi alliance’s* stance, it also criticizes the pro-Iranian parts of the Iraqi political sphere. Sunni politicians denounced what they called “the feckless response of the Iraqi security forces”.¹⁵¹ Sunni politician Saleh al-Mutlak said “more than once we’ve warned that there is a big Iranian involvement in Iraqi affairs... the officials in the government keep neglecting this matter, saying that there is no irrefutable evidence. Do we need more evidence, more than what we are witnessing today?”¹⁵² Omar Abdul Sattar Karbouli of the Iraqi Islamic Party, the largest Sunni Muslim party in Iraq, said to the newspaper *al-Baghdadiya* that “the occupation of the Fakka oil field comes as a natural result of the silent strategy pursued by the Iraqi government towards the Iranian persistence to continuously interfere in Iraqi affairs” [my translation].¹⁵³

The Sunni politicians, secular politicians and nationalist politicians not in government made strong statements with regards to Baghdad’s handling of the situation and its relationship to Tehran, doing so enabled them to clearly demonstrate that they were to be counted as oppositional forces to the current government.

Statements from civilian Iraqis showed a willingness to fight for the Fakka oil well. According to Walid Khadduri “what was interesting about the crisis was the spontaneous public opinion in opposition to Iran, and the following demonstrations condemning Iranian

¹⁵⁰ Aljazeera, “Iran continues to Occupy the Fakka field (Accessed 16.02.11).

¹⁵¹ Hastings, *Border oil dispute worsens fears about Iran’s influence over Iraqi government* (Accessed 16.02.11).

¹⁵² Ibid.

¹⁵³ *Al-Baghdadiya*, “Al-Karbouli after the occupation of the Fakka oilfield: a natural result of the government’s silence towards Iran’s continued meddling in Iraqi affairs” [my translation], *Al-Baghdadiya*, 20.12.09, <http://www.albaghdadia.com/n/iraq-polotics/11807-2009-12-20-10-53-24.html> (Accessed 16.02.11).

trespass in Iraqi territory, a phenomenon which worried the government, especially since most of the opposition was in the south itself, as well as Baghdad.”¹⁵⁴ This reaction is likely linked to the countries’ historical relationship. The majority of Iraqi citizens related this incident to previous conflicts, thus increasing the relevancy of the historical ballast.

As to the reactions from the Iranian side the Wall Street Journal reported “attempts to reach the Iranian mission to the United Nations in New York weren’t successful. Iran’s semiofficial Mehr news agency, citing the National Iranian Oil Company, denied allegations of an incursion.”¹⁵⁵ Amir al-Rashadi, a spokesman at the Iranian Embassy in Baghdad, said “We don’t have any information about this, but we suspect it is all lies.”¹⁵⁶ Iran’s state news media said Sunday that the Iranian troops had returned to their border post, but that the soldiers had never crossed into Iraq.¹⁵⁷ A likely implication of this kind of unyielding public response from the Iranian government was that maintaining a demand for dialogue to resolve the issue became increasingly difficult to defend for Iraqi politicians. A claim stated in one of my interviews was that the heads of the provinces in Iran can sometimes operate on their own behalf as if separated from the central authority in Tehran.¹⁵⁸ There is no way to prove that this is what happened with regards to the Fakka incident, but there is a possibility that a border patrol could have misread Tehran’s signals and acted too radically. If internal misunderstandings were to blame for the incident, a clear message of military repercussions from al-Maliki could have complicated future negotiations on the broader issue of shared oil fields.

With regards to the U.S.’ reaction Washington gave the impression of wanting to downplay the situation, noting that such incidents were not uncommon.¹⁵⁹ A U.S. military official in an operating base in southern Iraq said “there has been no violence related to this incident and we trust this will be resolved through peaceful diplomacy between the governments of Iraq

¹⁵⁴ E-mail correspondence with Walid Khadduri, 08.11.10.

¹⁵⁵ Cummins and Hafidh, *Iranian troops occupy oil field in Iraq* (Accessed 16.02.11).

¹⁵⁶ Williams and Schmitt, *Iraq says Iran occupied a border oil field* (Accessed 16.02.11).

¹⁵⁷ Ibid.

¹⁵⁸ Phone conversation with Ahmed Jiyad, 06.12.10.

¹⁵⁹ Alice Fordham, “Iranian troops cross border and seize disputed oilfield”, *The Times*, 19.12.09, <http://www.timesonline.co.uk/tol/news/world/iraq/article6961867.ece> (Accessed 16.02.11).

and Iran”.¹⁶⁰ The U.S. reaction is relevant here because of Iraq’s current situation whereby it is reliant on U.S. support, as well as building closer regional ties. Al-Maliki’s reaction was likely aimed to please Washington as well as the Iraqi population, without compromising Baghdad’s ties to Iran.

The Fakka incident illustrates that the issue of shared oil fields could be a major future obstacle to further integration. However, the response that came from both sides in the months after the incident shows that there is a possibility that the governments will be able to deal with this issue of high politics directly after all. This again implies that the relationship between Iraq and Iran is more constructive now than in the past, something that is vital in order for economic integration to prosper. This is also shown in the course of events following the incident.

In a televised debate in January 2010,¹⁶¹ a critical former Iraqi deputy Prime Minister, Ahmed Chalabi (Shia, *Iraq National Alliance*), stated “Iran is like a Godfather to them [the Iraqi politicians]”, he further stated “if Iran and Iraq had such good relations, couldn’t they sit down and talk?” Also present at the debate was Mohammad Marandi, professor at the University of Tehran. Marandi blamed the occupation of Fakka on the lack of orders from Central Command in Iran. He also stressed that after Saddam was overthrown, Iran was the first country to acknowledge Iraq. Chalabi and Marandi in many ways illustrate the pro-nationalist Iraqi opinion and the pro-Iranian opinion with respect to the Fakka incident. What is interesting with regards to Chalabi’s comment, is that the two parties actually did sit down to talk.

On December 21st the New York Times reported that Labeed Abawi, Iraq’s deputy foreign affairs minister, said representatives of the two countries planned to meet soon to try to agree on the precise border in the vicinity of the Fakka field in Maysan Province in southeastern

¹⁶⁰ Ibid.

¹⁶¹ Part of the debate can be seen here: <http://www.youtube.com/watch?v=d0bn2JMwkq8> (Accessed 16.02.11).

Iraq.¹⁶² In January 2010, Tehran Times reported the statements from former foreign minister Manouchehr Mottaki at a joint press conference with Iraqi Foreign Minister Hoshyar Zebari in Baghdad. Mottaki stated that Iran and Iraq had made three important agreements for resolving the disputes over their borders with concern to the Fakka incident.¹⁶³ Firstly, border guards were to meet within one week. Secondly, technical groups were to hold a meeting in the border city of Qasr-e Shirin within two weeks, and thirdly, a different technical committee on the two countries' water borders were to hold a meeting in Khorramshahr within three weeks.¹⁶⁴ Mottaki also said the Iranian and Iraqi border forces were stationed at "their places" near the Fakka oil field and expressed hope that the technical committee would start erecting the fences along the border to help everything revert to normal.¹⁶⁵

According to Ahmed Jiyad talks and visits between the two governments managed to defuse the situation rather quickly.¹⁶⁶ Less than three weeks after the Fakka incident Mottaki reportedly said "Technical dialogue is being held between the two countries to invest jointly in these joint oil fields", but did not provide further details.¹⁶⁷ It is interesting to note that after the initial reaction in December, it seems as though the parties managed to carry on with the overall discussions on the issue of the shared oil fields. The Fakka field is relatively small and in many ways unimportant with regards to Iraqi oil production. However, contributing to its importance is the fact that the handling of this field may be a measuring stick for the manner in which other border fields are handled. Such fields may include the super-giant Majnoon field. Iran's giant-field Yadavaran is also likely to extend into Iraq.¹⁶⁸

The initial government response to the Fakka incident provoked many members of the Iraqi opposition, but also the population at large. The initial responses to the incident showed that there was a sectarian and regional divide; Shias situated close to the well were generally more

¹⁶² Timothy Williams and Duraid Adnan, "Iraq-Iran stand-off over oilfields ends", *The New York Times*, 21.12.09, <http://www.nytimes.com/2009/12/21/world/middleeast/21iraq.html> (Accessed 16.02.11).

¹⁶³ Tehran Times Political Desk, "Iran, Iraq reach three agreements on borders", *Tehran Times*, 09.01.10, http://www.tehrantimes.com/index_View.asp?code=211695 (Accessed 16.01.10).

¹⁶⁴ Ibid.

¹⁶⁵ Ibid.

¹⁶⁶ Ahmed Jiyad, "Geopolitical determinants of Iraq's oil capacities", *Iraq Oil and Gas Net* (2010), <http://iraqog.com/oil/oillaw/jiyad910.pdf> (Accessed 16.02.11).

¹⁶⁷ Upstream Staff, "Iraq and Iran to iron out row", *Upstream Online*, 07.01.10, <http://www.upstreamonline.com/live/article202930.ece> (Accessed 20.02.11).

¹⁶⁸ Mackey and Schindelar, *Briefing: Iraq's border fields* (Accessed 16.02.11).

anti-Iranian in their response. Secular and Sunni politicians were far more aggressive in seeking military revenge and condemning the Iranian interference in Iraqi affairs. However, in the long run, Baghdad and Tehran managed to diffuse the situation through negotiations and dialogue. The initial response to the incident nonetheless proves that the perceived value of cooperation can vary not only along the sectarian divide, but also along the regional divide. Imperative to economic integration is good neighborly relations. The fact that Iraq and Iran were able to control the situation that arose after the Fakka incident proves improved neighborly relations.

2.4 Chapter summary

I started this chapter by establishing the historical ballast between Iran and Iraq and the border issue as inherent variables in the relationship. Regardless of developments between the countries, these two factors will continue to exert influence on the relationship at least in a medium term perspective. This was also shown through examining former efforts to cooperate. The third inherent variable established is the legal void caused by the absence of an Iraqi oil and gas framework law. This fact clouds the relationship between the federal and regional governments.

With regards to the contingent factors, I have pointed out four main categories of domestic pressures that may influence the integration process in Iraq. These actors reflect sectarian as well as nationalist concerns with regards to cooperation with Iran. The overview also shows the degree to which subcentral actors and technocrats can affect the integration process, even though they have little concrete legal power to affect decisions at this point. The ability of domestic pressures to influence the integration effort is heightened through the presence of public pressure.

The international community can also influence the degree of integration, and international pressure is as such identified as the second contingent factor in this thesis. Through reviewing cooperation efforts pre-2003 it became clear that the successes of these efforts were regulated by domestic pressures in both countries and by international pressures. Last but not least, the fact that the countries also lacked a common goal in their cooperation efforts further dictated

the degree of success. In the post-2003 era, the international community affects the degree of cooperation through the various sanctions regimes.

With regards to the perception of Iran's intentions in Iraq, I argued that some characterize these intentions as hostile in the post-2003 period, whereas others argue that Iran has played a constructive role. This creates a degree of insecurity with regards to the nature of the relationship. In reference to the issue of economic integration, this means that there is a degree of uncertainty when it comes to the issue of common goals, and thus whether cooperation efforts can be successful.

Through reviewing the Fakka incident I have shown that even though the historical ballast and geographic status of Iraq still plays a role in the current relationship, a more constructive dialogue between Baghdad and Tehran has also been established. This fact served to defuse a situation that could easily have lead to armed conflict in the pre-2003 era.

3 Oil

I will in this chapter move on to the thesis' first case study: the oil sector. What structures the nature of economic integration between Iran and Iraq in this sector will be explored through two broader themes, namely the issue of shared oil fields, i.e. fields that cross over the Iraq-Iran border, and the issue of building shared infrastructure. In the section dealing with shared infrastructure I will discuss the case of the Basra-Abadan pipeline.

3.1 Oil in Iraq and Iran

Iraq's energy sector is heavily based upon oil, with approximately 94 percent of its energy needs met with petroleum. In addition, crude oil export revenues accounted for over two-thirds of GDP in 2009.¹⁶⁹ According to the Energy Information Administration (EIA), just a fraction of Iraq's known fields are in development, and Iraq may be one of the few places left where vast reserves, proven and unknown, have barely been exploited.¹⁷⁰ Iraq has 9 fields that are considered "super giants" (over 5 billion barrels (bbl)) as well as 22 known "giant-fields" (over 1 billion bbl).¹⁷¹ According to independent consultants, the cluster of super-giant fields of southeastern Iraq forms the largest known concentration of such fields in the world and accounts for 70 to 80 percent of the country's proven oil reserves.¹⁷²

With regards to the oil sector in Iran the Oil and Gas Journal reported that as of January 2010, Iran has an estimated 137.6 bbl of proven oil reserves, or roughly 10 percent of the world's total reserves.¹⁷³ Iran has 40 producing fields with the majority of crude oil reserves located in the southwestern Khuzestan region near the Iraqi border. In 2008, Iran exported about 2.4 million bbl per day (bbl/d) of oil, primarily to Asia and the European OECD countries, making it the fourth largest exporter in the world.¹⁷⁴

¹⁶⁹ U.S. Energy Information Administration, "Country analysis brief: Iraq", *U.S. Energy Information Administration*, September 2010, <http://www.eia.gov/countries/cab.cfm?fips=IZ> (Accessed 29.10.11).

¹⁷⁰ Ibid.

¹⁷¹ Ibid.

¹⁷² Ibid.

¹⁷³ Ibid.

¹⁷⁴ Ibid.

3.2 Reason for cooperation failure: Shared oil fields

“The relationship between the two [Iran and Iraq] is still evolving, but slowly. Much will depend on the next Iraqi government as well as the near future of Iran (sanctions, economy, politics, war) ... There are ongoing talks between the two sides on joint fields, but this is within a larger framework on border issues stemming from prior to the 80s war.”¹⁷⁵

Beyond the historical ballast that make establishing a warmer relationship between Iran and Iraq difficult, is the issue of border demarcation as mentioned in the previous chapter. As noted in the previous section, Iraq’s oil reserves are to a large degree located along the eastern edge of the country. In addition, a large percentage of Iran’s operating fields are located close to the Iraqi border. Thus, discussing how the two countries are dealing with fields that are documented to cross the border, or may prove to cross the border pending further investigation, seems appropriate. This discussion can serve as a means to evaluating how the governments negotiate on an issue of high-politics.

3.2.1 How is the issue of shared oilfields being dealt with

The first recorded attempt by the MoO to address the subject of field unitization was in 1976-77. After having signed the 1975 Algiers Accord, Saddam Hussein gave the impression that he was interested in better relations with Iran.¹⁷⁶ In December 1977 Thamir Uqaili, former senior petroleum engineer, participated as a ministry technical official in an Iraqi delegation formed by the MoO. The delegation was to discuss oil cooperation with a team from the National Iranian Oil Company (NIOC), particularly on the fields of gas supply to Iran, border fields, and joint mineral exploration.¹⁷⁷ The recommendations made, included a proposal of field unitization, however neither the Iraq National Oil Company (INOC) nor the MoO responded to the recommendations. A few months later, the joint Iraqi-Iranian committee met in Baghdad. Again, no decision was made “despite the expressed desire on the Iranian side”.¹⁷⁸ With the Islamic revolution in Iran, Saddam’s attitude towards Tehran took a

¹⁷⁵ E-mail correspondence with Ben Lando, 09.12.10.

¹⁷⁶ Thamir Uqaili, “Iraqi border fields: politics and realities”, *Middle East Economic Survey*, Vol.LI, 24.03.2008, <http://87-85.netway.com.cy/postedarticles/oped/v51n12-5OD01.htm> (Accessed 25.05.11).

¹⁷⁷ Ibid.

¹⁷⁸ Ibid.

complete turn. According to Uqaili “the intention moved from a political game to actually inflicting damage to Iran”,¹⁷⁹ and so the first attempt to develop joint fields came to a halt.

After the removal of Saddam, new proposals have been made and talks have been held, however, the parties have long been at a standstill on the issue of shared oil fields. In August 2008 Aljazeera reported that the Iraqi government would set up a committee to deal with shared oil fields that cross into neighboring countries. The decision came after media coverage on the issue of whether Iran was exploiting the joint fields near the border.¹⁸⁰

Past reports show that both sides perceive the issue of shared oil fields as an important issue to resolve. The fact that top officials are being quoted on the initiative to resolve the issue could imply that the process is in fact driven by the higher powers of government, rather than strictly local politicians or interest groups. A further example of this could be inferred from a leaked diplomatic cable from the American embassy in Baghdad dated march 2009. Here Nuri al-Maliki is reported to have stated that he was in negotiations with Chevron to develop various oil fields, including a cross-border oil field with Iran.¹⁸¹ Al-Maliki claimed that Chevron had told him that the company had already raised the issue of a cross-border development with Tehran as well. However, the embassy noted in its summary of the conversation that it did not have any independent confirmation of this.¹⁸² Although the source on this matter is a leaked diplomatic cable, and validity as such cannot be insured, the message implied is an interesting one.

Iraq Business News confirmed further progress on the general issue of shared oil fields in May 2010. This development can be seen in conjunction with the Fakka incident discussed in Chapter 2. Iran and Iraq had at this point come to an agreement to provide a Master

¹⁷⁹ Ibid.

¹⁸⁰ Aljazeera, “Iraq and Iran are studying the issue of joint oil fields” [my translation], *Aljazeera*, 21.02.08, <http://www.aljazeera.net/NR/exeres/73252F76-F168-420D-B66F-DDB505D7D2F8.htm> (Accessed 29.10.11).

¹⁸¹ Wikileaks, “Subject: CDA, CG and PM discuss evolving security concerns, the budget, oil contracts; CDA delivers demarche on Camp Ashraf”, *U.S. Embassy Baghdad*, 23.03.09, <http://www.wikileaks.ch/cable/2009/03/09BAGHDAD791.html> (Accessed 29.10.11).

¹⁸² Ibid.

Development Plan (MDP) for five shared oilfields.¹⁸³ According to Iraq Business News “Iran and Iraq have different legal and contractual systems to develop their oil and gas fields. Once a common ground is established between the two nations, development of the shared border fields can be on the agenda”.¹⁸⁴ Thus the progression seems to be clear; the initial discussions led to the establishment of a committee, the committee was able to narrow the subject field down to five concrete fields in this round, and the next hurdle to be tackled were the countries’ differing legal framework. Nonetheless, Ahmed Jiyad, former senior economist with INOC, suggests that “with regards to Iran and Iraq and reaching an agreement on developing joint oil fields, there is a difference between what is reported in the news and what is happening on the ground.”¹⁸⁵

In January 2011 Iran’s state run news agency Press TV, reported that Iran and Iraq had reached an agreement to develop their joint oilfields in border areas.¹⁸⁶ Based on the new agreement, Iran and Iraq will set up joint expert committees to finalize technical and financial details of the agreement to develop the joint oilfields, and the parties were to meet again in March 2011.¹⁸⁷ This fact seems to suggest that there is a certain degree of continuity in the process, and that both parties are still prepared to find a solution to the issue.

Preferred modes of field operation

When it comes to concrete suggestions on how to develop shared oil fields, Iraq has proposed three options:

1. The two countries jointly develop the fields.
2. The countries set an extraction quota and develop them unilaterally.
3. Iran hires the same international company Iraq is using to develop the border field in question.¹⁸⁸

¹⁸³ Iraq Business News, “Iran, Iraq to develop 5 oil fields”, *Iraq Business News*, 05.05.10, <http://www.iraq-businessnews.com/2010/05/05/iran-iraq-to-develop-5-oilfields/> (Accessed 29.10.11).

¹⁸⁴ Ibid.

¹⁸⁵ Phone conversation with Ahmed Jiyad, 06.12.10.

¹⁸⁶ Press TV, “Iran, Iraq to reach deal on joint oil fields”, *Press TV*, 09.01.11, <http://www.presstv.ir/detail/159307.html> (Accessed 29.10.11).

¹⁸⁷ Ibid.

¹⁸⁸ Ben Van Heuvelen and Ben Lando, “Iraqi oil and gas moves could violate U.S. sanctions on Iran”, *Iraq Oil*

During my interview with Jiyad, he said that at this point in time it is not likely that an agreement between Iraq and Iran on this issue will be reached, but that both sides nonetheless agree that the fields must be developed jointly.¹⁸⁹ In Jiyad's view, the development of joint fields should have first priority, stating that if one of two countries harboring an oil field does not start the development, the other country will.¹⁹⁰ Jiyad also stressed that "partial development can ruin the field, this means that from a technical viewpoint, joint development is ideal".¹⁹¹ Jiyad was also concerned that border fields are more susceptible to premature depletion, and thus permanent loss of resources when the neighboring countries lack cooperation.¹⁹²

The last listed option on possible ways to develop the joint fields brings our attention to U.S.-Iran relations and the sanction imposed on Iran. Jiyad noted the impact of sanctions on this option, which he claimed would make it difficult for international companies to develop the Iranian side of a joint field.¹⁹³ If we look back at the abovementioned leaked diplomatic cable, al-Maliki actually mentions the third alternative to the embassy's Charge d'Affaires, Patricia Butenis, when he asks about the political feasibility of a deal involving a U.S. firm working both sides of a cross-border field given current U.S. government's policies toward Iran. The cable reads: "Butenis noted that U.S. law on sanctions would apply, but added that the Administration was reviewing its policies on Iran. Al-Maliki said that he preferred to go with Chevron on the deal; however, he remarked that if U.S. rules prevent Chevron from doing the project, he would approach a non-American firm."¹⁹⁴ This might be taken as a sign of al-Maliki's determination to develop the fields with or without the blessings of the U.S.

Report, 16.07.10, <http://www.iraqoilreport.com/politics/oil-policy/iraqi-oil-and-gas-moves-could-violate-u-s-sanctions-on-iran-4826/> (Accessed 02.09.10).

¹⁸⁹ Phone conversation with Ahmed Jiyad, 06.12.10.

¹⁹⁰ Ibid.

¹⁹¹ Ibid.

¹⁹² Jiyad, *Geopolitical determinants of Iraq's oil capacities* (Accessed 16.02.11).

¹⁹³ Phone conversation with Ahmed Jiyad, 06.12.10

¹⁹⁴ Wikileaks, "Subject: CDA, CG and PM discuss evolving security concerns, the budget, oil contracts; CDA delivers demarche on Camp Ashraf, *U.S. Embassy Baghdad*, 23.03.09, <http://www.wikileaks.ch/cable/2009/03/09BAGHDAD791.html> (Accessed 29.10.11).

The possible practical solutions to the issue of Iraq and Iran developing shared oil fields show that domestic politics and international pressures are likely to become tangled. There are also many potentially sensitive issues connected with developing shared fields if the parties cannot do so through a third party, but are forced to either use national extraction companies or set an extraction quota, but start developing the fields at different times. With this in mind the argument can thus be made that the development of shared oil fields is an issue of high politics that functionalists would claim is ill suited as a starting point for establishing international cooperation because it is likely to enhance divisions already present.¹⁹⁵

This section has established the sensitivity of the border issue in Iraq. The fact that the process of demarcating the border is taking time, does not necessary imply that the discussions are not productive; Norway and Russia have been negotiating over fishing resources and the rights to search for and exploit petroleum resources in the Barents Sea and Arctic Ocean since 1970. The final agreement was only reached in April 2010.¹⁹⁶ The end of the Cold War made it possible for Norway and Russia to re-embark on the subject of their shared frontier, the removal of Saddam Hussein can provide for a similar opportunity for Iraq and Iran. Nonetheless, the current status of the border issue between Iraq and Iran enforces the fact that Iraq's geographical status works as an inherent factor on the issue of shared oil fields. Closely related to Iraq's geographical status, is the historical ballast between Iraq and Iran as discussed in Chapter 2. Resolving the issue of the border, means being able to put an end to an historical strife that has been going on for centuries. Also seen as complicating the developments is the absence of the oil and gas framework law, the legal void discourages all international companies from taking part in extracting oil in Iraq since it is unclear what type of agreements can be made and under what conditions. Put together, the inherent factors remain constant with regards to solving the issue of shared oil fields.

Under Saddam the process of developing shared oil fields was in part stopped by ideological differences. Current efforts to resolve the issue seem to be partly driven by top officials,

¹⁹⁵ Dokken and Claes, *Regionalisme og integrasjon mellom stater*, 293.

¹⁹⁶ Norwegian Ministry of Foreign Affairs, "The treaty on maritime delimitation between Norway and Russia", *Norwegian Ministry of Foreign Affairs*, September 2010, <http://www.regjeringen.no/en/dep/ud/campaign/delimitation.html?id=614002> (Accessed 29.10.11).

perhaps even facilitated by foreign companies. From this it can be asserted that top officials find it beneficial to negotiate with Iran on this issue, and that domestic pressures as such function as an enabler to further integration. However, as was discussed in Chapter 2, thus far agreements in the oil sector only need Cabinet approval and are as such not subject to public debate. As mentioned earlier, the current Cabinet can be said to hold a pro-Iranian attitude. There are of course elements of the Cabinet that do not share this sentiment, however it is fair to say that the overall sentiment of the Cabinet can be interpreted as such. It seems clear from the individuals I have spoken to, that the development of shared fields is necessary and unproblematic from a technical standpoint. The interviewees are nonetheless skeptical with regards to this issue being solved, they see no ideological problem in Iraq and Iran cooperating, however, they feel that a natural progression is being stopped by politics. I will thus argue that domestic pressures can be seen as a contingent factor here, encouraging further cooperation at the top political level, whilst discouraging it at lower levels. This duality is due to the politicization of the oil sector, and the sentiment among some politicians that opposing policies put forth by al-Maliki's government in this sector, further establishes them as oppositional forces. Had this debate been a part of the larger public debate on oil sector developments, it is likely that the presence of public pressure could have further influenced the developments.

When we compare the developments in the oil sector with those in the electricity sector, it becomes clear that there are more cooperation agreements in the electricity sector, as will be discussed in Chapter 4. One reason for this is the apparent absence of public pressure in the oil sector. Thus far cooperation agreements in the oil sector have little impact on the everyday life of the average Iraqi citizen. Politicians are thus far more likely to use the suggested cooperation agreements discussed above to distance themselves from the current administration. In the electricity sector the agreements have a clear relevancy to the populace because they provide much wanted electricity, the politicians thereby run a personal risk by opposing the agreements. Not contributing to enlarging the amount of electricity available to Iraqis can result in the loss of votes or governmental position. This has not yet been seen in the oil sector, even though there is also a lack of refined petroleum products in Iraq, an issue that clearly affects the populace. Thus, it is likely that if the populace started to perceive the developments of shared oil fields as directly affecting them, the public pressure on local,

regional and national politicians would likely be heightened, and the prospects for cooperation would improve.

The potential economic benefits for all parties involved if some of the larger fields were to be developed, could help the process along and contribute to foreign companies urging Iraq and Iran to complete the border demarcation. Nonetheless, the implications of various sanctions regimes make this difficult. I will thus argue that in the case of developing shared oil fields, the issue of international pressures remains a contingent factor. The effects of a contingent factor may vary, thus cooperation efforts may be more successful if the international community were to reconsider the sanctions regimes. The comment made by Butenis in the abovementioned cable underlines this fact. If Washington were to reconsider its policies towards Iran, the hurdle posed by the international community on bilateral cooperation would decrease. However, as we will see in Chapter 4, this seems to be an unlikely development.

3.3 Reasons for cooperation failure: Developing shared infrastructure

The second issue to be discussed in conjunction with the broader theme of oil sector cooperation is that of developing joint infrastructure. Iraq is in need of increased refining capacity and new infrastructure in order to transport oil to its ports and export pipelines. A concrete example of this that will be further examined here is the planning of a pipeline from Basra in Iraq to Abadan in Iran. Before discussing the issue of the oil pipeline in detail we will first look at some of the challenges with regards to Iraq's plans for oil sector development as this illustrates the importance of developing new infrastructure for Iraq.

3.3.1 Iraqi plans for oil sector development

Iraq has begun an ambitious program to develop its oil fields and to increase its oil production.¹⁹⁷ This is regarded as vital for a successful reconstruction of the country as a whole. Despite the absence of the oil and gas legal framework, as discussed in Chapter 2, the MoO signed 12 long-term contracts between November 2008 and May 2010 with IOCs to develop 14 oil fields.¹⁹⁸ These contracts cover oil fields with proven reserves of over 60 billion barrels, or more than half of Iraq's current proven oil reserves.¹⁹⁹ As a result of the contract awards, Iraq expects to boost production by 200,000 bbl/d by the end of 2010, and to increase production capacity by an additional 400,000 bbl/d by the end of 2011.²⁰⁰ When the mentioned fields are fully developed, they will increase Iraq's total production capacity to almost 12 million bbl/d, or 9.6 million bbl/d above current production levels. The contracts call for Iraq to reach this production target by 2017.²⁰¹ It is worth mentioning that most experts regard the increase in production capacity anticipated by the Iraqi government as unrealistic, some believing that this goal will not be reached until 2035, maybe even later.²⁰²

According to Ahmed Jiyad, the concluded oil contracts are production-related; the IOCs get a remuneration fee for each incremental barrel as stipulated in the related oil contract.²⁰³ In other words the risk of exporting the produced oil is on the Iraqi side. In addition export facilities and all related logistics are the responsibilities of Iraq.²⁰⁴ Failure of the Iraqi side to have these facilities ready to cater for the production/export capacities, would make Iraq legally liable to pay the remuneration fees for the un-exported volume of the produced crude.²⁰⁵ This fact highlights the importance of infrastructure construction and maintenance.

3.3.2 Infrastructure Constraints

Iraqi refineries have antiquated infrastructure and only half run at utilization rates of 50 percent or more.²⁰⁶ The EIA points out that despite improvements in recent years, the oil

¹⁹⁷ U.S. Energy Information Administration, *Country analysis brief: Iraq* (Accessed 29.10.11).

¹⁹⁸ Ibid.

¹⁹⁹ Ibid.

²⁰⁰ Ibid.

²⁰¹ Ibid.

²⁰² Conversation with Willy Olsen, 09.11.10. The same sentiment was shared among the participants at the INTSOK meeting 21.10.10.

²⁰³ Jiyad, *Geopolitical determinants of Iraq's oil capacities* (Accessed 16.02.11).

²⁰⁴ Ibid.

²⁰⁵ Ibid.

²⁰⁶ U.S. Energy Information Administration, *Country analysis brief: Iraq* (Accessed 29.10.11).

sector has not been able to meet domestic demand of about 600,000 bbl/d, and the refineries produce too much heavy fuel oil and not enough other refined products. As a result, Iraq relies on imports for 30 percent of its gasoline and 17 percent of its liquefied petroleum gas.²⁰⁷ To alleviate product shortages, Iraq's 10-year strategic plan for 2008-2017 set a goal of increasing refining capacity to 1.5 million bbl/d, and is seeking \$20 billion in investments to achieve this target.²⁰⁸ The cooperation with the Iranian refinery in Abadan could contribute to Iraq meeting domestic demand for refined products. The Abadan refinery alone has a capacity of 400,000 bbl/d.²⁰⁹

In addition to transporting oil to refineries, oil pipelines can also function as export routes. Iraq has one major crude oil export pipeline to the North, the Kirkuk-Ceyhan pipeline. This pipeline transports oil from the north of Iraq to the Turkish Mediterranean port of Ceyhan.²¹⁰ To the West Iraq could previously export oil through the Iraq-Syria-Lebanon Pipeline. The line has been closed and the Iraqi portion reported unusable since 2003.²¹¹ The export route in the South was the 1.65 million bbl/d Iraq Pipeline to Saudi Arabia (IPSA). This line has been closed since 1991 following the Gulf War.

The mentioned export routes all require good neighborly relations and could serve as vantage points for establishing closer cooperation between the countries involved. However, there is also a degree of vulnerability associated with the export options that involves shared infrastructure. Any of the countries involved could for political reasons, especially during times of worsening bilateral relations, exert pressure on Iraq by suspending the flow of oil through the pipeline in its territory. This has been demonstrated earlier when Syria closed the pipeline going through its territories in April 1982 and when Saudi Arabia closed the IPSA pipeline in 1991.²¹² Iraq could be making itself vulnerable to these kinds of reactions when announcing a production goal of 12 million bbl/d. Countries such as Iran and Saudi Arabia might find an increase of oil on the international market of this magnitude provoking. Jiyad

²⁰⁷ Ibid.

²⁰⁸ Ibid.

²⁰⁹ Ibid.

²¹⁰ Ibid.

²¹¹ Ibid.

²¹² Jiyad, *Geopolitical determinants of Iraq's oil capacities* (Accessed 16.02.11).

states “Such a production capacity would anger Iran and threaten Saudi Arabia, thus prompting both countries to act against Iraq, by blocking the flow of oil through pipeline on their territories.”²¹³

3.3.3 Case: the Basra-Abadan pipeline

Having reviewed the Iraqi plans for oil production increase and the infrastructure constraints in Iraq, it becomes clear that the income from oil export depends on the betterment of infrastructure and export possibilities. Samuel Ciszuk, Senior Middle East and North Africa Energy Analyst at IHS Energy, notes that mutual dependence on billion-dollar infrastructure is a good way to cement an alliance; there is a long-term commitment implicated by building a pipeline.²¹⁴ Nonetheless, the Basra-Abadan project seems to have stalled. In the following section I will explore the factors that have contributed to stalling the project.

The Abadan refinery is Iran’s largest refinery,²¹⁵ and is located close to the border with Iraq. The first Memorandum of Understanding (MoU) on the Basra-Abadan pipeline was signed in 2004 and the preliminary agreement was signed in 2005.²¹⁶ Under the 2005 preliminary deal, Iraq was to export 150,000 bbl/d of crude through the twin pipeline and Iran was to send gasoline, gas, oil and kerosene to Iraq in return.²¹⁷ In April 2010 Iraq Business News reported that the revived plan to export Iraqi crude was being reviewed by Iraqi officials. Ali Heidari, the trade attaché at the Iranian embassy in Baghdad, stated that “We gave a draft of the agreement to the Iraqi side... It is in its final stages, it could be signed within a month.”²¹⁸ According to Iraq Business News, Heidari said the new plan includes exporting Iraqi crude “through Iranian regional waters”.²¹⁹ In May 2010 Iran Daily reported that “negotiations

²¹³ Ibid.

²¹⁴ Van Heuvelen and Lando, *Iraqi oil and gas moves could violate U.S. sanctions on Iran* (Accessed 02.09.10).

²¹⁵ U.S. Energy Information Administration, “Country analysis brief: Iran”, *U.S. Energy Information Administration*, January 2010, <http://www.eia.gov/countries/cab.cfm?fips=IR> (Accessed 29.10.11).

²¹⁶ Iran Daily, “Iran-Iraq oil pipeline closer to construction”, *Iran Daily*, 02.05.10, http://www.iran-daily.com/1389/2/12/MainPaper/3669/Page/4/MainPaper_3669_4.pdf (Accessed 20.05.11).

²¹⁷ Iraq Business News, “Iran to sign Iraq oil pipeline deal in a month”, *Iraq Business News*, 26.04.10, <http://www.iraq-businessnews.com/2010/04/26/iran-to-sign-iraq-oil-pipeline-deal-in-a-month/> (Accessed 21.02.10).

²¹⁸ Ibid.

²¹⁹ Ibid.

between Iran and Iraq to build an oil pipeline between the two neighbors may come to fruition within a month.”²²⁰ However, a concluding agreement has yet to be made.

According to press reports the pipeline is expected to significantly benefit both parties involved: the line will aid Iraq’s inability to meet local demand with domestic crude production, and allow Iran’s oil industry to benefit from processing Iraq’s cheaper crude, which would in turn mean higher profit margins on petroleum output sales.²²¹ Furthermore, using Iraqi crude to provide an increased percentage of the feedstock at Abadan refinery would allow Iran to export a larger share of its own crude.²²² Despite many meetings between the two parties the project seems to have been at a standstill since the primary agreement was signed in 2005.

Why is the development of the joint pipeline not progressing?

For critics it is easy to relate the delayed progression of the Basra-Abadan pipeline to the historical ballast between the countries. However, I will in this section discuss whether it is in fact domestic and international pressures in both countries that have contributed to stalling the project.

Iran: Domestic politics and foreign affairs

I will here discuss some of the issues related to Iranian local politics and foreign affairs that may have affected the progress of the Basra-Abadan deal. This is not a conclusive list of issues. It rather handles some of the major topics, so as to illustrate the effect of domestic concerns on bilateral cooperation.

²²⁰ Iran Daily, *Iran-Iraq oil pipeline closer to construction* (Accessed 20.05.11).

²²¹ Iraq Business News, ”Iran-Iraq oil pipeline closer to construction”, *Iraq Business News*, 03.05.10, <http://www.iraq-businessnews.com/2010/05/03/iran-iraq-oil-pipeline-closer-to-construction/> (Accessed 21.02.11).

²²² Ibid.

According to Shayerah Ilias, Analyst in International Trade and Finance, Iran has enjoyed a broad-based economic growth since 2000.²²³ However, strong economic performance has been hindered by high levels of inflation and unemployment, and low levels of foreign investment.²²⁴ With the onset of the global economic downturn, Iran's economic growth was expected to slow down in 2009 and through 2010.²²⁵ In January 2010, the Iranian parliament approved a subsidy reform plan that cut government subsidies on fuel and other goods and services. Ilias writes that implementation of the plan may enhance Iran's long-term financial sustainability, but there are concerns that a reduction in subsidies will lead to high rates of inflation and political unrest in the short-term.²²⁶ Iran has already experienced severe demonstrations during the summer of 2009 and 2010. The regime in Iran has worked hard to secure its position, while at the same time having to implement unpopular cuts in subsidies. Domestic pressures may have lead to a delay in concluding an agreement with Iraq.

On the other hand, the fact that Iran is already struggling with its own refinement capacity, unable to keep pace with domestic demand, makes the project with Iraq seem as an unlikely occurrence; how is Iran to refine Iraqi crude when it does not have enough capacity to refine its own? One possible answer to this could lie in the reduction of subsidies. Higher prices on petroleum products, will most likely lead to a reduction in domestic demand. This could free capacity from Iranian refineries making it possible to refine Iraqi crude. As mentioned earlier, refining Iraqi crude would give higher profit margins. However, Iran also has larger projects with regards to refinement capacity in process. There are plans to increase Iranian refining capacity to around 3 million bbl/d by 2013 through joint ventures with companies in Asia, including China, Indonesia, Malaysia, and Singapore.²²⁷ In addition, a 5-year development plan submitted to the Majlis in January 2010, envisages an increase in oil production capacity to 5.1 million bbl/d by 2015.²²⁸ This also requires foreign assistance. The planed increase in refining capacity and production capacity may have forced Iran to delay relatively smaller scale projects, such as the pipeline deal with Iraq. In order to reach its goals, partners such as

²²³ Shayerah Ilias, "Iran's economic conditions: U.S. policy issues", *Congressional Research Service*, 22.04.10, http://assets.opencrs.com/rpts/RL34525_20100422.pdf (Accessed 11.05.10).

²²⁴ Ibid.

²²⁵ Ibid.

²²⁶ Ibid.

²²⁷ U.S. Energy Information Administration, *Country analysis brief: Iran* (Accessed 29.10.11).

²²⁸ Ibid.

China and Russia may seem more beneficial than Iraq in the short run. These countries have more money to invest and can also contribute with equipment and personnel.

With regards to international pressures, Iran has been hit with new rounds of sanctions from U.S., UN and EU. The implications of the sanctions regimes will be discussed at length in Chapter 4. They do however force Iran to look for other international markets. This again enforces the importance of economic partners such as China and Russia.²²⁹

One should also not disregard the effect of the argument made by Jiyad in the previous section with regards to the progression of this project: Why would Iran, or Saudi Arabia, want Iraq to increase its export capacity? Although this is a relevant argument, it is important not to forget that Iran is Iraq's main trading partner and has been one of the largest investors in Iraq.²³⁰ With large parts of the international market being unavailable to Iran, Iraq is as such an important trading partner in the region. One could argue that by refining Iraqi crude Iran would at least be insured to economically benefit from Iraq's increasing capacity, rather than being a passive bystander to Iraq's expansion.

Iraq: Domestic politics and foreign affairs

The Iraq Study Group, appointed by the U.S. Congress to assess the situation in Iraq in 2006, wrote this in their report:

“There has been some economic progress in Iraq, and Iraq has tremendous potential for growth. But economic development is hobbled by insecurity, corruption, lack of investment, dilapidated infrastructure, and uncertainty... Immediate and long-term growth depends predominantly on the oil sector.”²³¹

²²⁹ Ilias, *Iran's economic conditions* (Accessed 11.05.10).

²³⁰ Iraq Business News, *Iran to sign Iraq oil pipeline deal in a month* (Accessed 21.02.10).

²³¹ James A. Baker III and Lee H. Hamilton, *The Iraq Study Group Report: The way forward, a new approach* (New York: Vintage Books, 2006), 21. Also found on http://media.usip.org/reports/iraq_study_group_report.pdf

The factors mentioned may also play into the development of the Abadan-Basra pipeline. In addition, the discussions over the oil law combined with other pressing issues at one point had the nation on the brink of civil war. The lack of a new oil law also made the IOCs reluctant to invest in Iraq because there was confusion as to whether contracts would be valid were a new oil law to be ratified. The debate concerning the oil law contributed to delays in the initial licensing rounds, which in turn necessitated a delay on the pipeline discussion.

After the fall of Saddam, starting up the oil production again was vital for the reconstruction of the country. In this perspective it seems reasonable that projects such as the Basra-Abadan pipeline, related to the refinement and export of oil, were left in the background. There is no need for a pipeline to transport oil if there is no oil to transport to begin with, hence licensing off the major oilfields had first priority. This statement from Assem Jihad, spokesman the MoO, in 2010 seems to be consistent with the belief that the pipeline was not a first priority issue: “the gas [pipeline] coming from Iraq and the oil pipe going to Iran, which they are still not agreed yet [*sic*] – still too early to talk about them.”²³²

The security situation has also been a serious hurdle delaying most projects having to do with Iraqi reconstruction. If using the number of deaths as a measure of relative security, mid-2008 seems to be the point when the death toll dropped and thereafter remained relatively low.²³³ In other words, the security situation alone could have been a serious hindrance for finalizing the agreement between Iraq and Iran for three years after the initial planning.

When it was decided to award off the contracts to develop some of the oilfields in Iraq to foreign companies, the MoO had its hands full. There was strong pressure from international companies to get the process started. The Iraqi government proved that it could act swiftly and efficiently during its handling of the licensing rounds. However, when two licensing rounds were finalized and some of the largest fields awarded off, the urgency that was present when Baghdad handled most of its other petroleum related projects, was missing from the joint pipeline project. It has been suggested that this was due to the fact that the pipeline deal

²³² Van Heuvelen and Lando, *Iraqi oil and gas moves could violate U.S. sanctions on Iran* (Accessed 02.09.10).

²³³ See for instance *Iraq Body Count*: <http://www.iraqbodycount.org/>

is mostly related to infrastructure. Some experts claim that as soon as Iraq gets its capacity for refinement up and running, the need for the pipeline to Abadan will be gone.²³⁴ A possible reason for why the progress has stalled could thus be that Iraq has been able to negotiate other deals, rendering the pipeline deal with Iran obsolete.

In addition, Ben Lando writes that like Iran, Iraq is a net importer of refined products, and arguably has greater economic interest investing its capital in building domestic refineries than in constructing bilateral pipelines.²³⁵ This statement is supported when looking at Iraq's plans for new refineries. However, this does not solve the question of Iraq's limited access to the Gulf. If the statements reported by the Iraq Business News are correct regarding Iran allowing Iraq to use its ports for export, the pipeline deal could still prove more beneficial in the long run, providing Iraq both with refined products and an increased export capacity.

Another reason for building the pipeline was that the imported Iranian gas could help run the planned natural-gas power stations in Iraq. These are vital in order to tackle the issue of electricity shortage in Iraq.²³⁶ However, Iraq has signed other contracts for electricity generation as well, and is thus not solely reliant on the joint pipeline deal in order to run its power stations. This again serves to undermine the urgency, and perhaps also the relevancy, of the pipeline deal.

Last but not least, Iran is not the only country Iraq will want to have good relations with. According to Jiyad, "as long as the U.S.-Iran confrontation regarding Iran's nuclear program remains hot and affects American foreign policy towards Iran, all these pipeline projects could fall under the U.S./UN/EU sanction regimes, adding further geopolitical uncertainty and high risk potentiality for Iraq".²³⁷ However it has been the opinion of some of my interviewees that Iraq has not given a lot of thought to the sanctions against Iran yet,²³⁸ or to the repercussions were Iraq to engage in cooperation with Iran. Kenneth Katzman, a specialist

²³⁴ Conversation with Kjetil Visnes, 20.09.10.

²³⁵ Van Heuvelen and Lando, *Iraqi oil and gas moves could violate U.S. sanctions on Iran* (Accessed 02.09.10).

²³⁶ U.S. Energy Information Administration, *Country analysis brief: Iraq* (Accessed 29.10.11).

²³⁷ Jiyad, *Geopolitical determinants of Iraq's oil capacities* (Accessed 16.02.11).

²³⁸ Conversation with Farouk al-Kasim, 20.10.10.

in Middle East affairs for the Congressional Research Service, is far less pessimistic than Jiyad. In 2010 he said “I very much doubt the Iraqi government or the KRG would be sanctioned, given that it is U.S. policy to continue to help post-Saddam Iraq get on its feet”.²³⁹ Ben Lando notes “for now, the U.S. policy on the pipeline deals has not escalated beyond general displeasure, and such a diplomatic posture might be all that is required...If the Americans can rattle their sabers loudly enough, it might convince Iraq that the costs of laying pipe with Iran outweigh the benefits.”²⁴⁰

However, the EU sanctions are of a different nature. The scope of these sanctions will severely complicate Iran’s dealings with EU countries and is suggested to provide an incentive for Iran to cooperate closer with Iraq.²⁴¹ Cooperation between Iraq and Iran, however, becomes a complicating factor for most European companies operating in Iraq; if an IOC took part in a joint venture involving Iran in Iraq, this company too would be affected by the sanctions and would have limited access to technology and sales opportunities.²⁴² One interviewee stated: “Even if there were natural models for cooperation between Iran and Iraq international companies could not touch it”.²⁴³

From a western perspective, due to the various sanctions regimes, Iraq cooperating with Iran would leave China and Russia as the big investors, a turn of events that is viewed as greatly disadvantageous. This opens for the possibility that Iraq is being pressured by foreign parties not to commit to projects with Iran. Establishing the importance of new energy providers to the EU is the report *Energy 2020; A strategy for competitive, sustainable and secure energy*. It states that “over the next ten years, energy investments in the order of € 1 trillion are needed...”²⁴⁴ Furthermore the report states: “While pursuing diversification of import sources and routes, reinforced energy partnerships will be established by the EU with key suppliers

²³⁹ Quote by Kenneth Katzman, in Van Heuvelen and Lando, *Iraq oil and gas moved could violate U.S. sanctions on Iran* (Accessed 28.10.10).

²⁴⁰ Van Heuvelen and Lando, *Iraqi oil and gas moves could violate U.S. sanctions on Iran* (Accessed 02.09.10).

²⁴¹ Conversation with Kjetil Visnes, 20.09.10.

²⁴² Ibid.

²⁴³ Conversation with Willy Olsen, 09.11.10.

²⁴⁴ European Commission, “Energy 2020: A strategy for competitive, sustainable and secure energy”, *European Commission*, 10.11.10, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0639:FIN:EN:PDF> (Accessed 22.02.11).

and transit countries.”²⁴⁵ Given that Iraq has the world’s fourth largest proven oil reserves, it is undoubtedly a potential key partner. Cooperation between Iraq and Iran would hence have grave consequences for Iraq-EU cooperation.

In conclusion, issues that prevent the progression of the pipeline from the Iranian side, are issues related to domestic and international pressures. Iran is struggling with internal unrest, all the while being cut off from large parts of the international market. This emphasizes the need for Iran to establish close relationships with alternative markets, such as the Chinese and Russian markets, among others. With regards to Iraq, the fact that the energy situation is rapidly changing may have caused the Basra-Abadan project to become obsolete. Progression of the project does as such not hold high priority. This should not be taken as a sign that cooperation between Iraq and Iran in the oil sector as a whole does not hold high priority. The lack of a properly demarcated border is also likely to have affected the progression. When Iraq has found other ways to increase refinement capacity, it has also meant that Baghdad has not had to tackle issues related to the border with Iran, as would have been the case with regards to the Basra-Abadan pipeline. Other projects may thus have been easier and faster to implement.

The most obvious inherent factor in this case has been geography. However, historical ballast contributes to the difficulty of reaching an agreement in the oil sector. The vulnerability attached to sharing infrastructure with a former archenemy contributes to the complexity of the negotiations on the issue. Furthermore the legal void caused by the absence of an oil and gas framework law, clouds the legal responsibilities attached to the pipeline.

It is likely that if the proposed project was perceived as covering a vital need within the Iraqi oil sector, all the while providing Iran with access to the regional market, the progression would be faster. If the domestic political milieu in both countries were to put a higher value on cooperating on the project, the likelihood of cooperation success would also be higher, both due to the effect of domestic and public pressures, but also as a result of the “common

²⁴⁵ Ibid.

goal argument” discussed in Chapter 2. If both countries perceived the project with equal importance and developed joint strategies in order to reach their goal, the likelihood of success would be greater. However, international pressures keep inhibiting cooperation schemes between Iraq and Iran.

3.4 Chapter summary

On the issue of integration between Iraq and Iran, projects related to cooperation already exist in the oil sector. I have argued that the inherent factors in combination with the contingent factors, structures the nature of integration in this sector. The degree of cooperation success is conditioned on the influence of the inherent factors in combination with the contingent factors. This was further illustrated through exploring the issue of shared oil fields and the building of shared infrastructure.

In the discussion on Iraq and Iran developing shared oil fields and shared infrastructure, I demonstrated that the inherent factors remained constant. The historical ballast, legal void, and geographical status worked as initial inhibitors when it came to further development on these issues. With regards to the contingent factors, I demonstrated that on the issue of developing shared oil fields, the domestic pressures could be seen as both encouraging and prohibiting further development. The politicization of the oil sector was pointed out as a main reason for this fact. Furthermore, the current international pressure was pointed out as inhibiting further development. The IOCs appear to be interested in taking part in developing the shared fields, as some of these fields are assumed to be giant and even super-giant fields, something which in turn means that the financial gains from developing such fields would be great. However, the sanctions regimes enforced on Iran inhibit international companies from taking part, and thus also takes away their incentive to encourage the countries to reach a solution with regards to the border, and on how to develop the fields. If the sanctions regimes were to change, the IOCs’ attitude towards this issue would change, and the pressure exerted on Iraq and Iran from such companies to solve the related issues would be heightened.

With regards to the issue of developing shared infrastructure, the case study on the Basra-Abadan pipeline illustrates the importance of domestic and international pressures. The pipeline between Basra and Abadan seems to be one possible solution out of many with regards to improving Iraq's refining and export capabilities. It seems that the pipeline is not necessary in absolute terms for either country; it could indeed be beneficial, but it is not crucial. In addition, international pressure also put a damper on the benefits of building shared infrastructure with Iran. As will be further illustrated in Chapter 4, the outcome of the cooperation initiatives changes due to variations in the contingent factors. In the electricity sector, domestic and public pressures encourages cooperation between Iraq and Iran, this allows for the inherent factors to be sidestepped and further progress in economic integration to be made.

Thus far the development discussed in Iraq's oil sector can serve to illustrate the government's attempt to solve an issue of high-politics, as Iraq's oil sector is directly related to the country's foreign and security policies. According to neofunctionalism this sector is as such a poor vantage point for integration, a postulation that may be proved correct when seeing the lack of cooperation progress in this sector. The developments that have occurred however, seems to be driven by top-officials, this is largely due to the legal implications with regards to the oil sector. This is more in line with the intergovernmentalist approach. According to the intergovernmentalists, the lack of progress could then be seen as a result of diverging national interests. This is directly applicable to the issue of shared oil fields where top and low level politicians were argued to be both encouraging and prohibiting further development. One reason for the fact that both the neofunctionalist and the intergovernmentalist perspectives can be employed here, is that they are not always directly applicable to the non-European context; they do not take into account the importance of the political elites or mutual dependence existing between actors before the integration process started.

4 Electricity

In this chapter I will use the electricity sector to explore why integration between Iraq and Iran has been successful up to a certain point, and why it has yet to progress further. In so doing, I will identify the drivers and obstacles to economic integration in this sector. True for the electricity sector, as well as for the oil sector, is that agreements between Iraq and Iran already exist. However, I will argue that even though there is a wide range of cooperation efforts related to electricity, the contingent factors affect the prospects for further integration. I will argue that the main reason for the current status quo is due to public pressure, which forces Iraqi politicians to make pragmatic considerations. The presence of public pressure promotes progress, while international sanctions are the reason for the integration process stalling. I will start this chapter with an introduction to the electricity sector in Iraq, before discussing the abovementioned factors separately.

When discussing integration in the electricity sector, Stanley Hoffman's distinction between high and low politics become relevant. Hoffmann drew this distinction in order to explain why integration was possible in certain technocratic and uncontroversial areas and why it was likely to generate conflict in matters where the autonomy of government or components of national identity were at stake.²⁴⁶ It can be argued that the individual citizen's access to electricity initially falls within the first area as an uncontroversial issue. However, given the electricity sector's interconnectedness with the petroleum sector in Iraq – a sector that arguably is part of the high politics scheme – it can be asserted that the electricity sector qualifies as a sort of “medium politics”. This will further affect the sectors ability as a good starting point for further economic integration.

4.1 Electricity in Iraq

I will start by looking at the structure of the Iraqi electricity sector, and what some of the major challenges are in terms of reconstruction. This is done because it seems likely that some

²⁴⁶ Rosamond, *Theories of European integration*, 77.

of the issues the Ministry of Electricity (MoE) struggles with today are rooted in events that took place already in 2003.

Iraq faces several challenges in improving the oil and electricity sectors. The U.S. played and still plays a central role in the Iraqi reconstruction effort. This was initially due to the U.S. role in the 2003 invasion and the position it assumed in the following governing institutions, such as the Office of Reconstruction and Humanitarian assistance (ORHA) and the CPA (Coalition Provisional Authority). The CPA, led by the United States and the United Kingdom, was the UN- recognized authority responsible for the temporary governance of Iraq and for overseeing, directing, and coordinating reconstruction efforts from May 2003 through June 2004.²⁴⁷ With the establishment of Iraq's interim government in June 2004, the CPA's responsibilities were transferred to the Iraqi government or to U.S. agencies. Since then, the Department of State has been responsible for overseeing U.S. efforts to rebuild Iraq.²⁴⁸ The U.S.' influence on the reconstruction effort has been substantial and this section will therefore to a large extent focus on U.S. assessments and efforts.

In The United States Government Accountability Office's (GAO) report *Rebuilding Iraq*,²⁴⁹ Iraq's electricity infrastructure is described as consisting of a network of

1. Generation facilities that produce power.
2. Transmission stations and lines that transmit power from power stations to distribution networks. Electrical substations, which adjust voltage levels for distribution, connect power plants to transmission systems and distribution networks.²⁵⁰
3. Distribution stations and lines that move power to the end users (i.e. hospitals, industries, government buildings, and neighborhoods).
4. An automated monitoring and control system.

²⁴⁷ United States Government Accountability Office, *Rebuilding Iraq: Restoring Iraq's oil and electricity sectors* (New York: Novinka Books, 2008), 11.

²⁴⁸ Ibid., 12.

²⁴⁹ Ibid., 11.

²⁵⁰ Special Inspector General Iraq Reconstruction, *Hard Lessons: The Iraq reconstruction experience* (Washington, D.C: U.S. government printing office, 2009), 146.

After the invasion in 2003 the state of the Iraqi electricity sector was grave, however this was not due to the events of 2003 alone. According to Bechtel National Inc., a company hired by USAID (United States Agency for International Development) to assess the condition of Iraqi infrastructure in 2003, plants were in general 10 to 25 years old and had suffered deterioration in excess of what would be expected for plants of similar age.²⁵¹ According to the UN and World Bank the nameplate capacity²⁵² in Iraq in 1990 was about 9,295 megawatts²⁵³ (MW) with a peak demand of about 5,100 MW. Approximately 87 percent of the population had access to electricity at that time.²⁵⁴ During the 1991 Gulf War, the generation stations were the most severely damaged and generation capacity was reduced to 2,325 MW.²⁵⁵ Several transmission lines were put out of service and substations damaged. After the war there was a lack of basic maintenance caused by a combination of lack of funds and sanctions.²⁵⁶ Revenue from the Oil-for-Food program eventually helped fund repair work. This increased generation to a daily average of about 4,000 megawatts by the end of 2002,²⁵⁷ still well below Iraq's nameplate capacity of 9000 MW. According to SIGIR (Special Inspector General for Iraqi Reconstruction), achieving nameplate capacity required all facilities to be operational and running optimally, however chronic maintenance problems and fuel shortages made this impossible.²⁵⁸ When the UN and the World Bank were conducting their investigation into Iraqi needs in June 2003, generating capacity had fallen to about 3,300 MW, half the current total potential load of 6,500-7,000 MW.²⁵⁹ Thus, repairing the Iraqi electricity network after the 2003 invasion meant not only repairing damage inflicted during the 2003 invasion, but also damage that occurred in 1991 and the years that followed where maintenance was well under par. I mention this to better illustrate the task ahead, and the added pressure such evaluations led to for reconstruction officials.

²⁵¹ Bechtel National Inc., *Iraq infrastructure reconstruction assessment report*, June 2003, 2.4-3, http://www.usaid.gov/iraq/contracts/pdf/iirii_rfp031002attach10.pdf (Accessed 31.03.11).

²⁵² Nameplate capacity is the maximum amount of electricity a facility can generate.

²⁵³ One megawatt provides enough power to service an estimated 3000 homes, see U.S. Army Corps of Engineers Gulf Region Division, "Restore Iraqi Electricity", <http://www.grd.usace.army.mil/news/factsheets/docs/USACE-RIE%20factsheet.pdf> (Accessed 31.03.11).

²⁵⁴ UNDG and the World Bank Group, *United Nations/World Bank Joint Iraq Needs Assessment*, June 2003, <http://siteresources.worldbank.org/IRFFI/Resources/Joint+Needs+Assessment.pdf>, 28 (Accessed 01.11.11).

²⁵⁵ Ibid.

²⁵⁶ Ibid.

²⁵⁷ Special Inspector General Iraq Reconstruction, *Hard Lessons*, 146.

²⁵⁸ Ibid.

²⁵⁹ UNDG and the World Bank Group, *United Nations/World Bank Joint Iraq Needs Assessment*, 28 (Accessed 01.11.11).

In mid-summer 2003 U.S. Ambassador Paul Bremer boldly announced that the Coalition would have Iraq's average daily electricity supply back up to prewar levels by September 2003.²⁶⁰ When compared to the joint UN and World Bank assessment, the CPA's goals were liberal. In comparison the UN and the World Bank assessed that the objective for 2004 should be to increase the generating capacity to 4,775MW and commence the necessary works to eventually provide about 8,760 MW in 2007.²⁶¹ The CPA however, even before having reached the 4,400 MW target, set a new goal; in a broadcast to the Iraqi people on August 29, 2003, Bremer said, "about one year from now, for the first time in history, every Iraqi in every city, town, and village will have as much electricity as he or she can use and he will have it 24 hours a day, every single day."²⁶² At the time, the CPA estimated the current unsatisfied demand at 6,000 MW. This number would rise as Iraqis anticipated greater amounts of power being available in the foreseeable future.²⁶³ This underlines the fact that during much of the reconstruction, authorities contributed to driving up Iraqis' expectations for a swift and pain free reconstruction of the electricity grid, promising them more electricity than they had had even before the invasion and the Gulf War. The lofty promises coupled with the authorities inability to meet the heightened demand, enabled the electricity sector to become one of the major yardsticks to which the Iraqi population measured its government's success.

Further pressure was added when the UN and World Bank recommended in their report the making of a master plan for energy sector development in order to evaluate the measures needed to properly reconstruct the energy sector.²⁶⁴ The Iraqi government in turn made two consecutive master plans, one for the 2006-2015 period and one for the 2009-2030 period. The Ministry of Electricity's 2006-2015 Electricity Master Plan estimated that \$27 billion

²⁶⁰ Statement made by Ambassador Paul Bremer in an interview on "CBS: Face The Nation", 20.07.03, <http://www.defense.gov/transcripts/transcript.aspx?transcriptid=2851> (Accessed 18.04.11) and in an interview with "Fox News Sunday", 20.07.03, <http://www.defense.gov/transcripts/transcript.aspx?transcriptid=2848> (Accessed 18.04.11).

²⁶¹ UNDG and the World Bank Group, *United Nations/World Bank Joint Iraq Needs Assessment*, 30 (Accessed 01.11.11).

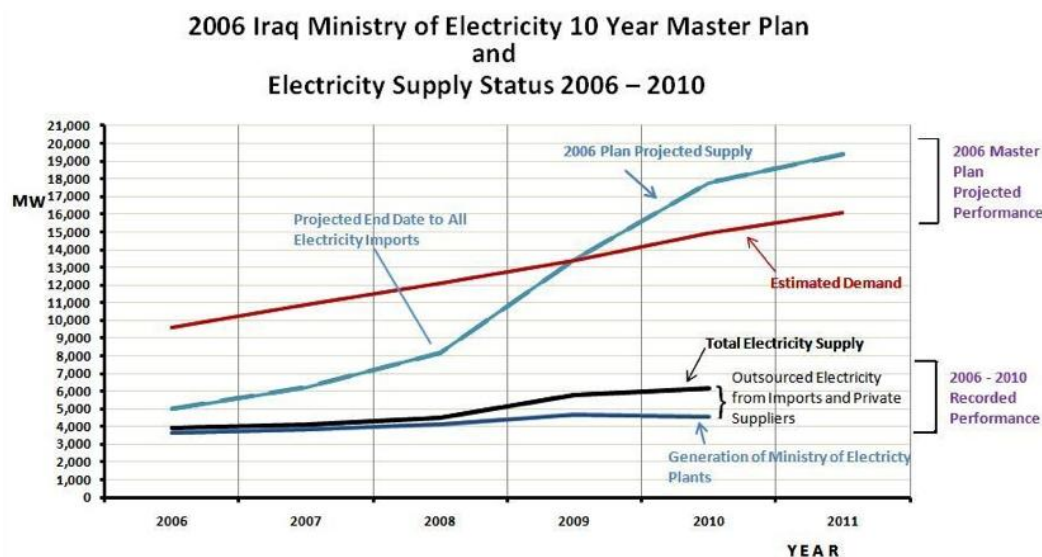
²⁶² Paul Bremer, "Broadcast to the Iraqi people", 29.08.03. Transcript available on CPA's homepage: http://govinfo.library.unt.edu/cpa-iraq/transcripts/20030831_bremerbroadcast29august.html (Accessed 01.11.11).

²⁶³ Special Inspector General Iraq Reconstruction, *Hard Lessons*, 150.

²⁶⁴ UNDG and the World Bank Group, *United Nations/World Bank Joint Iraq Needs Assessment*, 29 (Accessed 01.11.11).

would be needed to reach its goal of providing reliable electricity across Iraq by 2015.²⁶⁵ The goals of the Master Plan were to:²⁶⁶

1. Rehabilitate the existing power generation plants and transmission and distribution networks
2. Increase generation capacity
3. Provide a secure power supply to all consumers
4. Build the capacity of ministry staff to implement the plan
5. Connect Iraq's grid with neighboring countries



Source: *The Iraq Oil Report*.²⁶⁷

This graph illustrates the electricity supply projected performance versus recorded performance in Iraq for the 2006-2010 period. As can be seen from the graph, the developments in the electricity sector did not go as planned. Recorded performance continued to be significantly lower than projected performance. According to the GAO report, the Master Plan's projections assumed a stable supply of fuel for electricity generation, which has not been the case. The projections were also based on the assumption that the MoE would be

²⁶⁵ United States Government Accountability Office, *Rebuilding Iraq*, 17.

²⁶⁶ Ibid.

²⁶⁷ The graph is taken from *The Iraq Oil Report*: <http://www.iraqoilreport.com/wp-content/uploads/2011/02/slide-three.jpg> (Accessed 12.04.11).

able to mobilize funding for projects listed in the Master Plan and properly manage, maintain, and operate its electricity infrastructure.²⁶⁸

A side effect of the Iraqi government's first Master Plan has been its contribution to driving up public expectations with regards to electricity supply, and in extension the population's expectations for its government's ability to reconstruct the energy sector. The fact that demand for electricity has continued to rise since 2005 illustrates this point. The Master Plan has been criticized for exaggerating the electrical network's capacity and the speed to which it can be improved.²⁶⁹ It can be argued that the first Master Plan contributed to widening the gap between the public's expectations and the government's capability to deliver. This can also be seen as a continuation of Bremer's policies mentioned earlier.

The tendency to set lofty goals and driving up the public's expectations continued with the 2009-2030 Master Plan. According to Adel Mahdi of the Ministry of Electricity, the objective of the plan was to "tighten the gap between production and demand" – a goal the master plan aims to achieve by 2013.²⁷⁰ Analyst David Lockhart states that the plan represents the largest projected expansion of electricity generation and transmission infrastructure ever planned for a post-conflict nation.²⁷¹ According to Lockhart "the master plan cannot succeed without support from international companies with the requisite technical expertise and ability to operate effectively in Iraq, and from lending institutions willing to finance development."²⁷² In other words; not only did the government continue to set goals that once more could contribute to driving up demand, and that could prove impossible to achieve within the time frame, they also made Iraq dependent on foreign help. It is worth noting that the boost in total electricity supply that can be observed in mid-2008 (see graph) is largely due to imported electricity from countries such as Iran. This serves to underline the importance of countries willing to export power to Iraq.

²⁶⁸ United States Government Accountability Office, *Rebuilding Iraq*, 31.

²⁶⁹ *Ibid.*, 29.

²⁷⁰ David Lockhart, "Analysis: Iraq's electricity plans", *Iraq Oil Report*, 11.03.11, <http://www.iraqoilreport.com/energy/electricity/analysis-iraqs-electricity-plans-5465/> (Accessed 11.03.11).

²⁷¹ *Ibid.*

²⁷² *Ibid.*

This section has served to illustrate the pressure politicians and policy makers have been under since the reconstruction effort started in 2003, with regards to the electricity sector. The Iraqi government continued the trend of driving up the public's expectations after having taken over the reconstruction process from the CPA through publicizing its reconstruction goals in Master Plans. This in turn enforced the fact that the electricity sector had become a measure of government success. The public's expectations and electricity demand continued to rise. The position given to electricity demand and supply in the Iraqi public debate has contributed to the politicizing of the issue.

4.2 Iraq-Iran electricity sector cooperation projects

In the following section I will look at some of the projects that have been initiated between Iraq and Iran in the electricity sector. This review does not include all projects, but is a fairly comprehensive overview. As mentioned earlier the electricity sector in Iraq consists of a network of generation, transmission and distribution facilities. I will therefore present the different projects in that order. It is interesting to note that Iran has projects in all parts of the Iraqi electricity network.

Generation projects

The generation part of the network is where electricity is produced. Iran currently has several projects in Iraq in the generation sector, including:

- Al-Sadr power plant (Baghdad).²⁷³
- Najaf power plant.²⁷⁴

Already in September 2007 it was reported that Tehran had signed a \$150 million contract to build the power plant in Baghdad.²⁷⁵ As was the case in the oil sector, projects in the

²⁷³ Iraq Business News, "Iran to boost Iraq's power generation", *Iraq Business News*, 23.03.11, <http://www.iraq-businessnews.com/2011/03/23/iran-to-boost-iraqs-power-generation/> (Accessed 01.11.11).

²⁷⁴ Pishgaman Sanat & Niroom webpage: <http://www.pishgaman-sn.com/index.php?option=content&task=view&id=23> (Accessed 01.11.11).

electricity sector have not been devoid of conflict; in February 2011 the Iraqi government issued an ultimatum to the Iranian company Sanir²⁷⁶ because the construction of the Sadr City plant was behind schedule.²⁷⁷ According to the ultimatum, Sanir was to complete its project within July the same year. The Iraqi Electricity Ministry spokesman, Musaab al-Mudaris, said that if Sanir failed to honor its commitments “its conduct will boomerang negatively on the country’s relations with other Iranian firms working in Iraq.”²⁷⁸ However, in March Sanir had almost completed its contract and is currently [March 2011] negotiating with Iraq to expand capacity of the Sadr City plant from 160 MW to 640 MW.²⁷⁹ As was the case with the handling of the Fakka incident discussed in Chapter 2, this can be taken as an example of the two governments’ ability to negotiate instead of letting indifference contribute to further conflict.

According to al-Mudaris the MoE is also negotiating with Sanir to install gas-driven turbines at Dibis, another major power plant in Iraq.²⁸⁰ During a visit headed by the Deputy Prime Minister for Energy Affairs, Husain Shahrstani, to Tehran in February 2011, Iran and Iraq signed a new agreement under which Iranian firms are to construct 11 new power plants in the country.²⁸¹

Transmission projects

The transmission part of the network transmits power from power stations to distribution networks. Iran currently has quite a few transmission projects in Iraq, including:

²⁷⁵ Ali Akbar Dareini, “Iranian influence increasing in Iraq”, *The Associated Press*, 14.09.07, http://www.washingtonpost.com/wp-dyn/content/article/2007/09/14/AR2007091401370_pf.html (Accessed 17.03.11).

²⁷⁶ Sanir is a power plant development affiliate of Iran’s Energy Ministry.

²⁷⁷ Khayoun Saleh, “Iraq issues ultimatum to Iranian firm”, *Azzaman*, 12.02.11, <http://www.azzaman.com/english/index.asp?fname=news\2011-02-12\kurd.htm> (Accessed 24.03.11).

²⁷⁸ Ibid.

²⁷⁹ Mohammed Tahir, “Iran to expand capacity of power plant in Iraq to 640 MW”, *Azzaman*, 22.03.11, <http://www.azzaman.com/english/index.asp?fname=news\2011-03-22\kurd.htm> (Accessed 24.03.11).

²⁸⁰ Ibid.

²⁸¹ Khayoun Saleh, *Iran to construct 11 power plants in Iraq* (Accessed 24.03.11).

- Marivan (Kurdistan) – Panjwin (Sulemania), power line, under construction.²⁸²
- Abadan (Khuzestan) – Alharasa (Basra), 400MW power line, under construction.²⁸³
- Sarpole-zahab (Kermansah) – Khanqeen (Diyala), power line.²⁸⁴
- Karkheh (Khuzestan) – al-Amarah (Maysan), power line, under construction.²⁸⁵

According to some sources the agreements on the transmission line from Abadan, and on the transmission line from Marivan to Panjwin, were solidified during the Iranian president's first visit to Iraq.²⁸⁶ This fact underlines the perceived political importance of the project on both parts. Iran is also heavily involved in repairing high voltage power lines as well as constructing new ones to link its national grid with Iraq's.²⁸⁷

Distribution projects

Distribution networks deliver the transmitted power to local areas. Iran's Deputy Energy Minister Mohammad Ahmadian said on February 29, 2008, that Iran intends to link its power networks to Iraq through nine border points.²⁸⁸ According to the former Iraqi Electricity Minister, Karim Wahid, the city of Khanaqin in the Diyala Province was already importing

²⁸² Associated Press, "Ahmadinejad: Iran-U.S. talks helping Iraq", *Associated Press*, 01.03.03,

http://www.msnbc.msn.com/id/23421798/ns/world_news-mideast/n_africa/ (Accessed 24.03.11).

²⁸³ Ibid.

²⁸⁴ Alsumaria News, "Iran is seeking to increase electricity exports to Iraq to one thousand megawatts" [my translation], *Alsumaria News*,

<http://www.alsumarianews.com/ar/3/17682/news-details-.html> (Accessed 24.03.11).

²⁸⁵ AKnews, "Iran will provide Iraq with 200 additional megawatts in the coming period" [my translation], *Aknews*, 23.02.11,

<http://www.aknews.com/ar/aknews/2/220284/> (Accessed 24.03.11).

²⁸⁶ Kathleen Ridolfo, "Iraq: Sunnis say Iran working to solidify economic control", *Radio Free Europe/Radio Liberty*, 05.03.08, <http://www.rferl.org/articleprintview/1079591.html> (Accessed 17.03.11).

²⁸⁷ Khayoun Saleh, *Iran to construct 11 power plants in Iraq* (Accessed 24.03.11).

²⁸⁸ Kathleen Ridolfo, *Iraq: Sunnis say Iran working to solidify economic control* (Accessed 17.03.11).

120 MW at 5.4 cents per kilowatt-hour in 2007.²⁸⁹ In addition the city of Halabja had spent \$1.8 million to develop the infrastructure to import electricity from Iran in 2007.²⁹⁰

In February 2011 Iran declared its willingness to increase the supply of power to Iraq with 1150 MW.²⁹¹ According to a statement issued by the Office of the Iraqi Deputy Prime Minister, Rowsch Nuri Shaways “Iran exports close to 850 MW of electric power to Iraq through four power lines. As the fifth line, the Karkheh – al-Amara line, becomes operational this will increase” [my translation].²⁹²

This overview shows that there are many projects of cooperation between Iraq and Iran in the electricity sector. As mentioned earlier, Iran is involved in all aspects of the Iraqi electricity grid and has projects in most of the governorates along the Iraq-Iran border. It is interesting that these facts alone have not contributed to a larger public debate in Iraq on Iranian influence. In the oil sector the issue of shared oilfields has long been a source of conflict. Developing fields close to the border seemed to affect the political scene to a large extent. In the oil sector Iranian involvement has become a politicized topic. This does not seem to be the case to the same extent with regards to the electricity sector. As can be seen in the above, several cooperation agreements have been made, some even including joint infrastructure. This would support the assumption that electricity cooperation is initially a low politics issue, and is thus well suited as a vantage point for further integration, as it is less likely to enhance divisions already present.

²⁸⁹ Edward Wong, “Iran is playing a growing role in Iraq economy”, *New York Times*, 17.03.07, <http://www.nytimes.com/2007/03/17/world/middleeast/17iran.html> (Accessed 17.03.11).

²⁹⁰ Ibid.

²⁹¹ Aswat al-Iraq, “Iran ready to equip Iraq with 1150 MW of electricity” [my translation], *Aswat al-Iraq*, 02.02.11, http://ar.aswataliraq.info/Default1.aspx?page=article_page&id=271629&I=1 (Accessed 17.02.11).

²⁹² Ibid.

4.3 Reason for cooperation success: Public pressure

Having reviewed some of the projects in the electricity sector between Iraq and Iran in the previous section, it is clear that cooperation has progressed further in this sector than in the oil sector. I will discuss possible reasons for this in the following section, thus revealing what structures the nature of economic integration between Iraq and Iran in this sector.

Robert Putnam argues that “domestic politics and international relations are often somehow entangled, but our theories have not yet sorted out the puzzling tangle.”²⁹³ He claims that “much of the existing literature on relations between domestic and international affairs consists either of ad hoc lists of countless ‘domestic influences’ on foreign policy or of generic observations that national and international affairs are somehow ‘linked’.”²⁹⁴ Putnam provides his own theory of how domestic politics and international relations are related in the form of two-level games. He argues that the two-level approach recognizes that central decision-makers strive to reconcile domestic and international imperatives simultaneously.²⁹⁵

The two-level approach could help explain why those of the Iraqi decision makers who are negative to the influence of Iran in Iraq, and who are skeptical toward developing joint oil fields or infrastructure, do not seem to protest to the same extent when it comes to Iran being involved in the Iraqi electricity sector. I will argue that because the supply of electricity to an extent has become a measurement for government success, it requires that some Iraqi politicians make compromises in their foreign policy schemes (i.e. establishing closer ties with Iran). In so doing the public’s demands for electricity is fulfilled and in extension the positions of the politicians in question secured. This can explain why cooperation between Iraq and Iran in the electricity sector has been successful.

4.3.1 Public pressure

²⁹³ Robert Putnam, “Diplomacy and domestic politics: The logic of two-level games”, *International Organization*, Vol.42, No.3 (summer 1998), 427.

²⁹⁴ Ibid., 430.

²⁹⁵ Ibid., 460.

Illustrating the fact that the electricity sector is influencing the domestic political scene is the fact that during the campaigning to the parliamentary elections in 2010, several candidates staked their candidacies on improving Iraq's electricity infrastructure.²⁹⁶ This illustrates the degree to which politicians felt the issue of electricity would help them gain votes, and thus the important place the electricity sector held in the Iraqi public debate.

There have been several protests throughout Iraq on the issue of electricity supply. In the summer of 2010 the distribution of electricity got so bad that it resulted in mass protests in Basra and Nassariya.²⁹⁷ The political implication of these protests was the resignation of the Minister of Electricity.²⁹⁸ The Electricity Ministry also announced that Baghdad would receive an additional 1,000 MW of electricity per day – capacity which would be freed up by cutting back the power supply to some government offices and the Green Zone, one of Baghdad's largest consumers of energy.²⁹⁹ The fact alone that electricity was to be taken from the Green Zone serves to underline the severity of the situation. The resignation of the electricity minister in response to public uproar was also fairly unique with regards to contemporary Iraqi politics.

In the most recent demonstration in February 2011, hundreds of people gathered in Baghdad to protest poor services and sporadic power.³⁰⁰ Again the government response seemed to prove the severity with which politicians perceived the situation; the Ministry of Electricity announced that Iraqis would be receiving their first 1,000 kilowatt-hours of electricity for free each month.³⁰¹ However, it is important to note that this episode occurred around the same time as the Arab Spring, and that this regional public uproar may have influenced Baghdad.

²⁹⁶ Ben Lando, "Power Protests", *Iraq Oil Report*, 21.06.10, <http://www.iraqoilreport.com/energy/electricity/power-protests-4646/> (Accessed 23.03.11).

²⁹⁷ Ibid.

²⁹⁸ Carmen Gentile, "Iraq's electricity minister resigns", *Iraq Oil Report*, 22.06.10, <http://www.iraqoilreport.com/energy/electricity/iraqs-electricity-minister-resigns-4659/> (Accessed 16.03.11).

²⁹⁹ Carmen Gentile, "Shahristani given temporary power portfolio", *Iraq Oil Report*, 23.06.10, <http://www.iraqoilreport.com/energy/electricity/shahristani-given-temporary-power-portfolio-4667/> (Accessed 23.03.11).

³⁰⁰ Reuters, "Iraq subsidizes power after protests over services Iraq government to supply free electricity", *Alarabiya*, 12.02.11, <http://www.alarabiya.net/articles/2011/02/12/137362.html> (Accessed 16.03.11).

³⁰¹ Ibid.

In addition to the immediate responses to the protest discussed in the above, the response among Iraqi politicians, were public debates where the issue of which ministry was at fault for the insufficient electricity supply were discussed. The Electricity Ministry officials blamed the population for the rising demand, and the oil ministry, which it claimed did not supply the Ministry of Electricity with enough fuel to run the power plants.³⁰² At that time, both the minister of electricity and the minister of oil belonged to the same coalition, the UIA. Nonetheless, they have often battled in public and behind the scenes over budgets and allocation of resources.³⁰³

In the Iraq Oil Report's interview with Iraq's deputy minister of electricity, Ra'ad al-Haris, Haris places the blame for the electricity shortage on the Ministry of Finance saying that the ministry has been slow on paying for turbines, causing delays in delivery which in turn contributes to lacking supply of electricity.³⁰⁴ In addition Haris claims that "the Oil Ministry is only delivering half of the diesel and other fuel it has promised; even if delivered in full, that diesel would meet only half of the Electricity Ministry's needs."³⁰⁵ Haris also argues that the Oil Ministry has dodged responsibility for delivering the fuel, saying the Electricity Ministry must come to the refineries or storage depots to pick it up.³⁰⁶ The Oil Ministry on the other hand says it could produce more fuel if its refineries and other oil facilities received more electricity, and claims the Electricity Ministry does not efficiently use the fuel it receives.³⁰⁷

The sensitive nature of electricity demand and supply is in many way highlighted in the government's response to the issue. It seems as though none of the ministries involved are

³⁰² Ben Lando, *Power Protests* (Accessed 23.03.11).

³⁰³ Carmen Gentile, *Shahristani given temporary power portfolio* (Accessed 23.03.11).

³⁰⁴ Ben Lando, "Power plans confront fuel, infrastructure problems", *Iraq Oil Report*, 28.05.10, <http://www.iraqoilreport.com/energy/electricity/power-plans-confront-fuel-infrastructure-problems-4511/> (Accessed 16.03.11).

³⁰⁵ Ibid.

³⁰⁶ Ibid.

³⁰⁷ Ben Lando, *Power Protests* (Accessed 23.03.11).

willing to take responsibility or even discuss it's own roles in the development progress. Cooperating with Iran offers a quick relief from this process and access to additional supply of electricity without having to tackle all the issues related to infrastructure reconstruction inside Iraq. In this manner cooperation with Iran provides politicians with deliverance from an issue that potentially could cost them their jobs.

Various local public figures have also tried to deflect responsibility. During the protests discussed above, some Iraqis argued that subcentral actors were to blame for the varying quantities of electricity delivered to the different governorates. Basra Province Governor Shiltagh Abood stated “we are not the ones who should be blamed. The central government is the one should be questioned. The Minister of Electricity should be asked why Basra’s share of the electricity is so small.”³⁰⁸ This shows that there is regional divide in the perception of government capabilities in this sector as well as in the oil sector. It seems some governorates have been more successful than others in completing import agreements. With regards to agreements done with Iran the governorate of Diyala alone has completed agreements on two power lines. In extension this indicates that the degree of integration between Iraq and Iran can vary from governorate to governorate.

4.3.2 Summary

The inherent factors in the electricity sector remain the same as in the oil sector. However there are changes with regards to the effect of the contingent variables on the cooperation efforts.

The Iraqi government’s faulting ability to increase supply and meet the electricity demand is well documented. The population is to a large degree measuring the abilities of its government through the supply of basic services including the distribution of electricity. The energy plans have contributed to the population’s raised expectations, and enforced the image of a government incapable of action. When the population’s expectations are not met it puts added pressure on the two ministries that are directly involved; electricity and oil. Thus,

³⁰⁸ Ibid.

domestic pressures can be said to have enabled cooperation with Iran in this sector. The ministries urgently had to find a solution in order to increase electricity supply.

The Iraqi public has reacted to the lack of betterment in the sector by protesting, something that has had direct results on government and government policy. Public pressure can thus be seen as a contingent factor encouraging cooperation in this case.

The issue of electricity supply and demand affects the domestic political milieu in Iraq. In extension this is likely to affect the individual Iraqi politicians' attitudes toward cooperation with Iran within the electricity sector, since Iran has proven to be capable of affecting the electricity supply. Integration in the electricity sector can be said to have progressed as a result of public pressure, and politicians' need to make pragmatic decisions rather than decisions based on ideological or religious preferences. The inherent factors are as such largely sidestepped. Importing electricity from Iran has had an instant positive affect on the daily lives of Iraqis. The practical value of the projects have been easy to identify and therefore perhaps also easier to accept for the Iraqi population at large.

4.4 Reason for cooperation failure: International sanctions

Having looked at how public and domestic pressure affect the Iraq-Iran cooperation projects within the electricity sector, this section will deal with how international pressure influences integration at a bilateral level. The focus here will be on the sanctions regimes imposed on Iran by the U.S., EU and UN. Going back to the assumption made by Putnam that domestic and international relations are somehow related, cooperation between Iran and Iraq is an area where international pressure puts a damper on further development.

The issue of the various sanctions regimes has also been discussed in the previous chapter, however with regards to the electricity sector this issue has taken on a different form. With

regards to the oil sector Kenneth Katzman stated that “I very much doubt the Iraqi government or the KRG would be sanctioned, given that it is U.S. policy to continue to help post-Saddam Iraq get on its feet”.³⁰⁹ In addition, Chevron was identified as an international company wanting to enter into a joint venture with Iran and Iraq. In the electricity sector however, it is likely that the issue of sanctions is perceived as more pressing. This is due to the fact that these projects are to a larger degree implemented or even completed.

In contrast to the planned projects within the oil sector, some of the projects in the electricity sector have already been completed, and negotiations over further cooperation seems to have a faster and more fruitful progress than in the oil sector (i.e. the expansion of the Sadr City plant). In January 2011 Adel Mahdi, an adviser in the electricity ministry, said Iraq plans to boost imports from Iran, however, “due to U.S. sanctions, foreign banks have refused to transfer at least \$200 million of overdue payments to Iran.”³¹⁰ Mahdi stated: “I fear an indirect effect, that by summer maybe the debt on us will be half a billion (dollars) and at that time they (Iran) have peak demand... they could say ‘we will have to eliminate the contract and stop’.”³¹¹

4.4.1 The impact of U.S. sanctions

The United States has in place an almost complete economic embargo on Iran, which includes penalties on companies doing business with Iran, a ban on all Iranian-origin imports, sanctions on certain Iranian banks, a ban on selling aircraft or repair parts to Iranian aviation companies, and an exception from the Treasury Department to do any business with Iran.³¹²

Effective March 16, 1995, as a result of Iranian support of international terrorism and Iran’s active pursuit of weapons of mass destruction, President Clinton issued Executive Order

³⁰⁹ Van Heuvelen and Lando, *Iraqi oil and gas moves could violate U.S. sanctions on Iran* (Accessed 02.09.10).

³¹⁰ Rania El Gamal and Aseel Kami, “U.S. sanctions hamper Iraq power imports from Iran”, *Reuters*, 05.01.11, <http://www.reuters.com/article/2011/01/05/us-iraq-electricity-interview-idUSTRE7042GE20110105> (Accessed 16.03.11).

³¹¹ Ibid.

³¹² U.S. Department of the Treasury, “Iran Sanctions”, *Office of Foreign Assets Control*, <http://www.treasury.gov/resource-center/sanctions/Programs/Documents/iran.pdf> (Accessed 06.05.11).

12957 prohibiting U.S. involvement with petroleum development in Iran.³¹³ On August 19, 1997, the President signed Executive Order 13059 confirming that virtually all trade and investment activities with Iran by U.S. persons, wherever located, are prohibited.³¹⁴

Effective November 10, 2008, the authorization for “U-turn” transfers involving Iran was revoked. As of that date “U.S. depository institutions are no longer authorized to process transfers involving Iran that originate and end with non-Iranian foreign banks.”³¹⁵ This decision severely hurt companies from doing business in Iran. At the INTSOK meeting I attended in October, several petroleum industry executives gave the impression that they in the past had not been worried about conducting business in Iran because sanctions could be side stepped by using maneuvers such as the u-turn transfer.

According to the U.S. State Department nine companies have been sanctioned since the passage of the new sanctions legislation on July 1st 2010 for doing business in Iran’s energy sector.³¹⁶ The State Department has also used the authorities to persuade five major multinational oil firms to withdraw all significant activity in Iran. In addition dozens of companies have ended business with Iran.³¹⁷ The fact that the Turkish refiner Tupras cancelled contracts to supply gasoline to Iran, and Kuwait’s Independent Petroleum Group has stopped sales of refined products in 2010, shows that the sanctions most definitively can affect regional integration as well.

The Russian oil firm Lukoil has announced that it has ceased gasoline sales to Iran. In addition, India’s Reliance and Malaysia’s Petronas have all stopped sales of refined products in 2010. South Korea’s GS Engineering & Construction announced on July 1st that it had cancelled a \$1.2 billion gas-processing project in Iran.³¹⁸ This development can be taken as proof that the sanctions are also affecting Iran’s affairs with countries that previously would

³¹³ Ibid.

³¹⁴ Ibid.

³¹⁵ Ibid.

³¹⁶ U.S. Department of State, “Companies reducing energy-related business with Iran”, *U.S. Department of State*, 24.05.11, <http://www.state.gov/r/pa/prs/ps/2011/05/164131.htm> (Accessed 24.05.11).

³¹⁷ Ibid.

³¹⁸ Ibid.

not yield to the sanctions. This could in the long run enforce Iran's need for regional partners, and in extension friendly neighborly relations.

The current efforts between the UN, U.S, and EU to streamline their sanctions regimes directed towards Iran, can further increase the impact of the sanctions even for companies that do not have any commercial dealings with the U.S.

4.4.2 The impact of UN sanctions

The UN has imposed five sets of sanctions against Iran. These are the UNSCRs 1696 (imposed 31.07.06), 1737 (imposed 23.12.06), 1747 (imposed 24.03.07), 1803 (imposed 03.03.08), and 1929 (imposed 09.06.10). These were largely imposed in relation to the Iranian nuclear program, nonetheless they still effect the petroleum sector. The sanctions include freezing the assets of Iranian groups, companies and individuals engaged in or supporting sensitive nuclear work or the development of ballistic missiles, including the state-run Bank Sepah and firms controlled by the Revolutionary Guards.³¹⁹ UNSCR 1929 put in place further vigilance over transactions with any Iranian bank, including the Central Bank. Thus trading with Iran that involves any Iranian bank is sanctionable, an issue that affects Iraq's abilities to purchase electricity from Iran.

4.4.3 The impact of EU sanctions

On July 26th the European Council imposed sanctions against Iran in pursuit of UNSCR 1929. According to the European Council's press release "the Council adopted conclusions, along with a Decision on a package of restrictive measures to be imposed on Iran in the areas of trade, financial services, energy and transport and also a Regulation extending the list of entities and individuals subject to an assets freeze."³²⁰ As has been noted in Chapter 3 the EU sanctions go even further in targeting Iran's nuclear program and in preventing investments in Iran's oil and gas sectors than the U.S. and UN sanctions.

³¹⁹ UN Security Council, Resolution 1747, *United Nations Security Council*, <http://daccess-dds-ny.un.org/doc/UNDOC/GEN/N07/281/40/PDF/N0728140.pdf?OpenElement> (Accessed 06.05.11).

³²⁰ Council of the European Union, "Press release: 3029th Council meeting", *Council of the European Union*, 26.07.10, http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/115976.pdf (Accessed 06.05.11).

According to the sanctions “the sale or purchase, brokerage or assistance with the issuance of public or public-guaranteed bonds by the government or Iranian central bank or Iranian banks is banned.”³²¹ The sanctions also forbid the sale and supply or transfer of energy equipment and technology used by Iran for refining, liquefying natural gas, exploration and production.³²² In addition the requirement that any member state needs prior authorization when transferring funds over €40,000 to Iran, severely limits EU members’ ability to trade with Iran.

Cooperating with Iran could mean that Iraq would lose access to the European market in energy projects where Iran had been involved at some level along the process. Statements and interviews referred to in Chapter 3 show that Iraqi authorities do not view the repercussions of sanctions as their first priority. However, these statements were made prior to the implementations of the latest EU sanctions. The statement made by Adel Mahdi quoted at the beginning of this section suggests that this attitude is changing.

4.5 Chapter summary

In this chapter we have seen that the reconstruction of the Electricity sector in Iraq got off to a bad start in 2003. The infrastructure had suffered from both the Gulf War in 1990 and the invasion in 2003. The lack of progress in the reconstruction process combined with the authorities’ increasingly lofty promises, led the public to measure government success on their access to electricity. The successes of the cooperation agreements in this sector were dependent on the interaction between the inherent and contingent factors. The effect of the contingent factor domestic pressures was different in this sector than in the oil sector. This altered the resulting degree of cooperation achieved in this sector when compared to the oil sector.

³²¹ Council of the European Union, “Council regulation (EU) No 961/2010 of 25 October on restrictive measures against Iran and Repealing regulation (EC) 423/2007”, *Official Journal of the European Union*, 27.10.10, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:281:0001:0077:EN:PDF> (Accessed 06.05.11).

³²² Ibid.

The inherent factors remained stable in this sector as well as in the oil sector: Iraq's geographical status remained unchanged, and the historical ballast affected the public's and politicians' initial standing on cooperating with Iran. However, the impact of the contingent factors lessened the relevancy of the inherent factors. This was mainly due to the presence of bilateral agreements that were perceived by the population as having a direct positive impact on their daily lives.

The third inherent factor, the legal void, also remained unchanged. However, the Iraqi Constitution of 2005 takes a clearer stance with regards to the regulation of sources of electricity. It states that the power to regulate the main sources of electric energy is shared between federal and regional authorities. This means that the implication of the legal void is lessened. Nevertheless, if the cooperation agreements between Iraq and Iran were to include for example extraction of Iraqi oil or gas, the effect of the legal void would be the same as in the previous cases.

With regards to the contingent factors, I have demonstrated that domestic pressures encourage cooperation in the electricity sector, and that the cooperation efforts thus have been more successful in this sector than in the oil sector. The ability of politicians to make compromises combined with public pressure for increased electricity supply can explain this success. The positive effect of importing electricity is clearly visible for the citizens in the regions where such agreements have been made and to the politicians. As mentioned in the previous chapter it is likely that this fact alone has made it easier to promote cooperation agreements in the electricity sector than in the oil sector.

In Chapter 3 the domestic political scenes in both Iraq and Iran were pointed out as discouraging cooperation with Iran. In the electricity sector domestic pressures is seen as encouraging cooperation. This is mainly because a large number of politicians have sought to gain votes through promising the Iraqi people more electricity, both on a regional and national basis. The agreements in the sector between Iraq and Iran would likely not have been as

numerous nor had the same completion status, had the politicians not felt the same degree of pressure to take drastic measures in order to live up to their promises on electricity supply. This is especially true for the politicians that are otherwise regarded as being against Iranian influence. The electricity sector also differs from the oil sector in that the required infrastructure needed to meet the public's demand can easily be constructed at relatively low cost. Whereas in the petroleum sector the Basra-Abadan pipeline for instance, if it were to be build, would not be regarded as a quick fix; it takes time to build a pipeline and it would likely be an expensive project in a short-term perspective.

I argue that economic integration in the electricity sector is limited by the second contingent factor; international pressures. The sanctions regimes make trading between Iraq and Iran difficult. In addition Iraq cooperating with Iran complicates western countries' ability to get involved in energy related projects with Iraq, if Iran has been involved somewhere along the process as well.

The most obvious effect of the abovementioned sanctions, is the hindrance of Iranian integration into the international community at large. It seems that there has also been a growing awareness that the sanctions have not been taken seriously by international companies; they would simply make use of alternatives such as the "u-turn" transfer. The tightening of the rope so to speak makes the attitudes formerly held by Iraqi officials that they simply did not care about the sanctions harder to hold on to today. It also forces Iraq to make a choice of commitment; it either has to look largely at Iran and countries that do not themselves worry about the sanctions (China, Russia etc.) as their partners in reconstruction and trade, or withstand from integration with Iran so as to hold on to its market share in Europe and the U.S.

In the beginning of this chapter, the electricity sector was identified as belonging to the low or medium politics scheme, and thus, according to the neofunctionalists, suited as a vantage point for economic integration. Most of the agreements discussed here have been reached on a regional to local level, it can thus be further inferred that both local politicians and technocrats

have contributed to the developments. However, the effect of the sanctions regimes shows the gate-keeping role of the international society. Even though there is a natural progression in the agreements discussed, the sanctions regimes put a stop to further development. This is more in line with the intergovernmentalist approach. One could have expected that without the interference of international pressures, the spillover effect would have resulted in the process spreading to other sectors as well. However, as pointed out by Dokken and Claes, it is unclear what would happen were the process to spread to issues of high politics, such as the oil sector.

5 Conclusions

When reading about the relationship between Iraq and Iran after the fall of Saddam, it seems that many scholars, analysts and journalists alike are largely applying historical facts in order to evaluate the future prospects of relationship development. History is of course an important factor in understanding the future; it contributes to the complexity of factors that both connect the Iraqi and Iranian societies, and to the hostilities and massive divide between them.

However, the historical ballast does not provide the entire truth when it comes to understanding the relationship. In order to provide an in depth analysis of the current relationship between Iraq and Iran, I chose to explore developments between the countries' energy sectors. Since Iran and Iraq hold the world's 3rd and 4th largest proven oil reserves, bilateral cooperation in this sector could also affect the global energy market at large. I have argued that the absence of Saddam in combination with an Iraqi energy sector in dire need of reconstruction has provided for an opportunity for closer cooperation between the countries.

I have in the past chapters examined the presence of economic integration between Iraq and Iran in the energy sector. I have also identified drivers and obstacles to such integration in the form of inherent and contingent factors. I defined inherent factors as constant factors that would continue to dictate the direction of the relationship regardless of individual developments, at least in a medium to long-term perspective. The inherent factors I found to be relevant for this work was the historical ballast, geography, and the legal void caused by the absence of an oil and gas framework law. In addition I chose to view domestic and international pressures as contingent factors. The effect of domestic pressures proved to be emphasized by the presence of public pressure. The overall cooperation achieved was proven to be influenced by changes in the contingent factors.

Integration theory assumes that the countries involved have overcome some of the larger obstacles to cooperation that may have existed in the past, otherwise the countries would simply be coexisting rather than creating "a dimly discernable future concrete system [...] increasing the interaction and mingling".³²³ I have argued that in the energy sector, Iraq and

³²³ ³²³ Ernst B. Haas, *Beyond the nation state*, 29.

Iran have to a certain degree overcome the larger obstacles to cooperation. This can particularly be seen in the electricity sector. Here, the influence of the contingent factor domestic pressures, proved to enable cooperation in spite of the inherent factors.

According to the theoretical framework chosen I explored the issue of economic integration along two axes: high versus low politics as vantage points for cooperation, and politicians versus technocrats as the driving forces behind the integration process. I chose to approach the issue of economic integration in the energy sector through examining the oil and electricity sectors separately. In the oil sector I looked at the process of developing shared infrastructure, and the presence of shared oil fields. In the electricity sector I explored the effects of domestic and international pressures on the prospects for further economic cooperation.

Money for the Iraqi reconstruction largely has to come from oil revenue, thus both exploring new oil fields, and rebuilding the infrastructure holds high priority with the Iraqi government. The presence of shared oil fields seems like a natural opportunity for Iraq and Iran to cooperate. However, the border between Iraq and Iran has never been properly demarcated which complicates this option. The fact that the existing oil infrastructure in Iraq has been severely damaged since the 1990s, means that income from oil sales can be delayed if the infrastructure is not rebuilt quickly. The reconstruction process could potentially go faster if Iraq could, in addition to building new infrastructure within Iraq, rely on refining capacity already present in neighboring countries. In other words, the opportunity for cooperation between the countries is by all accounts present. However, wars have been fought over the location of the border, and the inability to agree upon a coordinated plan for developing the border fields could mean loss of revenue due to early field depletion. In addition, cooperation projects relying on Iran's refining capacity would largely entail building joint infrastructure from oil fields in Iraq to refineries in Iran. This brings the characteristics of the previous relationship between the two states into the future one; in controlling the flow of refined products into Iraq, Iran could have a potential power grip over Iraq. The repercussions of a neighboring country's power over Iraq when sharing infrastructure has previously been demonstrated by Saudi Arabia when it closed the strategic line to Iraq in 1991. Overcoming

these sector-related obstacles would enable cooperation and thus bring Iraq and Iran closer to economic integration.

I included an investigation of the electricity sector in this thesis for several reasons. Firstly, the electricity and oil sectors are interrelated in Iraq. Secondly, Iraq-Iranian electricity related cooperation projects have progressed further than oil related ones, which enabled us to compare the two and draw conclusions with regards to which factors have contributed to this difference. It also gave us the opportunity to compare integration via high versus low politics. In addition, there are issues that are relevant for both sectors, but that still seem to have a varying degree of influence on the progression of integration in each individual sector. I have thus argued that the effect of the contingent factors can influence the inhibiting effect the inherent factors have on cooperation, resulting in bettering the prospects for future integration.

The selected theory and cases have allowed us to examine the nature of economic integration between Iraq and Iran in the energy sector after the fall of Saddam Hussein. They have also made it possible to incorporate the debate between intergovernmentalists and neofunctionalists as to whether integration can be seen as a gradual and self-sustaining process, or the degree to which integration is related to the persistent gate-keeping role of the national governments.

5.1 Findings

5.1.1 Oil sector

As mentioned earlier I approached the issue of oil sector integration through exploring two separate issues that affect Iraq and Iran in this field, namely the issue of shared oil fields, and the issue of shared infrastructure. With regards to both these issues, I argued the inherent factors remained influential. The lack of a demarcated border severely complicates both building border crossing infrastructure, and developing shared oil fields. The historical ballast

contributed to the added complexity of the issues, and the legal void meant that the ownership of the fields in question, in addition to the distribution of eventual rents, remained unclear.

With regards to the issue of shared oil fields the contingent factors were identified as domestic and international pressures. The domestic pressures encouraged further cooperation on top political levels, however in lower levels it discouraged such developments. I identified this duality as being a result of the politicization of the oil sector in Iraq, and of political opposition's want to distance itself from the al-Maliki government. International pressures were also identified as discouraging further cooperation, through the presence of sanctions regimes.

With regards to the issue of developing shared infrastructure, the long-term commitment implied in building such infrastructure, could also be interpreted as the creation of a "discernable future concrete system". With regards to Basra-Abadan pipeline I argued that domestic and international pressures in Iran could be seen as discouraging further development, while in Iraq domestic affairs combined with changes in the country's energy needs have worked as inhibitors with regards to completing this project. I concluded that this should not be seen as a general disinterest in further energy cooperation with Iran, but rather a disinterest in this particular project. International pressures were also shown to be inhibiting further progress in developing shared infrastructure. International sanctions regimes aimed at curbing Iran's nuclear strategy would potentially affect international companies operating in Iraq, and thus complicates the degree to which Iranian and international companies can be involved in the same projects in Iraq. The importance of international companies operating in Iraq is further underlined when considering Iraq's peculiar situation at the present. Help from the international community, particularly the U.S. is an absolute necessity in order to reconstruct Iraq. This requires Iraq to balance the issue of cooperation with Iran and demands from the international community. Overall it seems that with regards to the oil sector both the inherent and contingent factors work as inhibitors to further cooperation.

The discussed cooperation agreements in the oil sector seem to come as a result of efforts made from both top officials and technocrats. There seems to be an expressed desire to cooperate in certain projects, however the sensitivity of such cooperation coupled with Iraq's

peculiar situation as a country in post-conflict mode, interact and result in the slow progression of such cooperation or complete stop. Given the initial understanding of the benefits of cooperating, and the initiative shown from both sides to improve the relationship, it is likely that an Iran-friendly Iraqi government, of the likes of the current Iraqi government, in the future may be able to advance the integration process further.

With regards to the evolvement of economic integration between Iraq and Iran, the investigation of the oil sector implies that the impact of the historical ballast between the two countries is inhibiting. This is largely because it underlines the sensitive nature of the two countries cooperating. The fact that the border is not properly demarcated was also proven to affect the progress of cooperation in this sector. However, it is not a given that this fact will have the same effect on all cooperation projects, as was seen in the electricity sector. However, it is probable that the likelihood of success of any cooperation agreement that on some level requires massive joint infrastructure crossing the border, or a clarification on ownership based on geographical location, will be in some way or another dependent upon Iraq and Iran finally establishing a set border. The exploration of the oil sector also revealed the extent to which cooperation agreements in this sector were affected by the absence of an agreed upon oil and gas framework law. The absence of this law clouds the relationship between national and regional responsibilities, and the legal rights of the individual actor when engaging in international cooperation. However, with regards to overall economic integration, this issue is directly related to the energy sector. The Iraqi legal framework does not have the same ambiguity in other sectors as it does in the energy sector, and the legal framework would thus not have the same potentially inhibiting effect as it does in this sector.

The combined effect of the contingent and inherent factors in the oil sector works as inhibitors on further cooperation. It is likely that the more relevant the cooperation projects are perceived by the Iraqi public at large, the less relevancy the historical ballast will have, and the less the Iraqi politicians will gain from politicizing eventual cooperation projects, at least in the short-term to medium-term perspectives. This can be inferred from my findings in the exploration of the electricity sector. It is thus reasonable to suggest that the effect of public pressures differs in the oil and electricity sectors, and that this directly affects the

degree of cooperation achieved. The positive effect of public pressure on the inherent factors was shown with regards to the electricity sector cooperation. The Iraqi population is in need of refined petroleum products, however they do not currently see the proposed cooperation projects as offering direct relief to this need. Were the suggested projects to be seen as having a directly positive impact, it is likely that they would have a higher probability of being implemented. The same can be said for the individual politician; if a cooperation project is seen as enabling political success, it will have a higher probability of being supported by the individual politician, regardless of that politician's initial stance on Iraq's relationship with Iran. The future presence of public pressures could thus tip the scale and enable further cooperation in the oil sector as well.

5.1.2 Electricity

Although the electricity and oil sectors in Iraq are related, the reconstruction of the electricity sector has been evolving at a slower pace than the oil sector. Nonetheless, Iran has contributed to the reconstruction to a larger extent in this sector than in the oil sector. Various contracts have been signed and Iran has already completed the building of a power plant and several electricity lines. Thus, integration in the electricity sector has progressed further than in the oil sector. I argued that the differing levels of integration achieved in the oil versus electricity sector are due to variations in the contingent variables. In the electricity sector, the domestic pressures worked to promote further economic cooperation. However, the progress was stalled due to the inhibiting effect of international sanction regimes.

I approached the issue of integration in the electricity sector through discussing factors that might complicate cooperation agreements. The tendency to exaggerate the speed at which reconstruction progress could be expected could be seen already during the leadership of the CPA, and continued in the Iraqi government's Master Plans. The tendency to set lofty goals contributed to the rising pressure on the authorities with regards to the public's expectations. This contributed to the degree to which the reconstruction of the electricity sector had to rely on foreign investment and help. The public's discontent with the situation was shown through several public demonstrations. The seriousness with which the government regarded these demonstrations was illustrated through the resignation of the electricity minister, and

announcements concerning reduction of electricity consumption in the Green Zone and free electricity.

With regards to the oil sector, cooperation with Iran was seen as a sensitive issue. Political coalitions wanted to avoid being regarded as pro-Iranian and did not promote cooperation with Iran. However, with regards to the electricity sector, the public pressure exerted on the politicians resulted in the virtual absence of such considerations. The importance of making decisions based on pragmatic considerations was regarded as more important than considerations related to the historical ballast. Integration thus has the potential to progress further in the electricity sector. However the international community stalls the progression through the various sanctions regimes in this sector as well.

With regards to integration theory it seems that the electricity sector, being part of the low politics scheme, initially was a better vantage point for integration than the oil sector. This can be seen in the number of completed agreements in the electricity sector versus the oil sector. However, the agreements in the electricity sector do not touch upon vital obstacles that need to be overcome if Iraq and Iran are to completely rehabilitate their relationship. These issues are to a larger degree touched upon with regards to oil sector cooperation.

The historical ballast played a lesser role in the electricity sector cooperation than in the oil sector. As I mentioned in the previous section, this is likely related to the direct positive effect the projects in the electricity sector have had on the population at large. The same can be said for the relevancy of the border question. However, unlike the oil sector, cooperation agreements between Iraq and Iran in this sector have not yet required the same type of massive infrastructure constructions as for instance the Basra-Abadan pipeline would require.

What becomes clear in the investigation of the electricity sector is the relevancy of public pressure, and that the hindrance put forth by the Iraqi domestic political scene can be sidestepped if the advantage of cooperating is seen as higher than the eventual political gains

from playing on the negative character of the historical ballast. As long as the project is seen as having positive implications both for the general public and for the individual politicians, the likelihood of success is larger.

The electricity sector also demonstrates the vital role played by international pressures. In the oil sector the threat of international sanctions also stalled the integration process, however in the electricity sector the threat actually materialized. If one is to follow the argument given when economic integration first was promoted in Europe after World War II, the road to peace is through increased economic dependence between neighboring countries. The sanctions heightens the pressure on Iraq with regards to its bilateral relations; it forces Baghdad to take measures in order to keep both the U.S. and Iran close, all the while not provoking either in its relationship with the other to an extent that threatens the relationship. In addition the sanctions also inhibits the betterment of regional relations.

5.2 What structures the nature of economic integration between Iraq and Iran in the energy sector?

I argue that integration occurs between Iraq and Iran in the energy sector, and that the integration achieved depends on the interaction between these factors: the historical ballast, geography, the legal void, and domestic and international pressures, in other words: the inherent and contingent factors. Altering the effect of the contingent factors, alters the degree of cooperation achieved

The role played by the governments in the integration process is large. The fact that the current government is closer to Iran than many members of the opposition has several implications. First, it means that agreements reached with Iran can be interpreted as the administration's weakness to Iranian interference in domestic affairs. Second, the opposition can use the issue of Iraq's relationship to Iran to establish itself further as an oppositional force. Third, dealings with Iran can contribute to enlarging the sectarian divide within Iraq. This makes reaching agreements difficult and it may play out badly for the powers in charge

with regards to elections if they are perceived as standing too close to Iran. However, there is an argument to be made that the current government's close ties to Iran may partially have worked as a catalyst to enable a betterment of the bilateral relationship as well.

There are forces in the region and in the international community that should not be disregarded when evaluating the possibility of Iraq-Iran integration. Iraq's current state demands large contributions from the international community. This will most likely not be the case when the oil sector is properly up and running, but as seen in the above, this will still take some time. At the present time Iran's standing with the international community affects the degree to which the community is willing to support integration between Iraq and Iran. The divide between Sunni and Shia Muslims, and the fact that Iran is seen as supporting Shia minorities in the Gulf and radical groups such as Hizbollah, also contributes to the degree to which integration between the two is welcomed in the region.

A separate issue that affects the assessments made in this thesis is the fact that the process being discussed is still going on. Changes happen fast and one cannot always foresee the implications. This can be illustrated by the occurrence of the Arab Spring in 2011.

With regards to integration theory, both the neofunctionalist and intergovernmentalist perspectives use the European integration process as their starting points. The absence of an approach better suited to describe integration between non-European countries has its implications. The web of established bonds between the Iraq and Iran shows that mutual dependence existed between the actors before the integration process started. Furthermore, the importance of individuals in the politics of both countries should not be overlooked.

Having reviewed my findings with regards to economic integration between Iraq and Iran, it is worth questioning whether the energy sector makes up for a special case, and thus whether the findings in this sector are applicable to other sectors. Precisely because the oil sector in particular, is the backbone of both countries' economies, the applicability may be limited. In

other less controversial sectors, one may find that economic integration will be easier to establish. This can be inferred from my discussion on integration in the electricity sector. Less controversial sectors may illustrate integration with low politics as starting points.

The fact that integration can take place in other sectors as well can be seen through the trade and tourism occurring both in Kurdistan in the North, and Basra in the South of Iraq. There may also be regional differences. In governorates close to the Iranian border, integration may already have been established to some degree simply because it is the easiest option for Iraqis to acquire merchandise. Both in cases where integration occurs in low politics sectors, or where it occurs as a practical solution to obtain access to a certain market, the issues of high politics will have to be tackled at one point or another. Even though functionalist integration theory asserts that the effect of spillover will ensure the spreading of integration to more sectors, it is not clear what happens when the process closes in on issues commonly regarded as high politics issues. One such issue is the lack of a demarcated border.

Precisely because of the electricity sector's vital importance to Iraq, it is perhaps unrealistic to expect the same will to cooperate in other sectors. One can question whether the developments seen in the electricity sector are merely the result of public pressures alone, rather than a rhetorical rethink when it comes to the nature of the Iraq-Iran relationship. It is difficult to know what Baghdad and Tehran's long-term intentions are. It is clear that Iran is in need of regional partners and Iraq is in need of partners in its reconstruction efforts. However, the presence of an Iraqi government that is not altogether negative when it comes to Iranian influence clouds the possible conclusion as to whether the developments seen comes as a result of this government's preferences or an overall rethink when it comes to regional integration. It is however important to remember that the government has taken steps to rebuild relations with its other neighbors as well. This has included an effort to solve ongoing disputes with Kuwait, reopen the oil pipeline to Syria and to build a new pipeline through Jordan. Turkey has also emerged as an important trading and investment partner. This could indicate that the current government is aiming towards a rethink when it comes to regional integration.

Finally, both in the electricity sector and the oil sector, I point to international pressures as an obstacle on the road towards integration. This is another issue that may be more important in the energy sectors than in other sectors. The reason for this is the international community's fear that Iranian influence on Iraqi politics may make Iraq a vassal for Iranian policies. This may in turn threaten the community's energy security. Hence, integration between Iran and Iraq on its own may not be a problematic issue for the international community at large, but rather the integration in a sector the community needs to obtain access to, and which it needs to remain reliable and stable.

It is clear that when discussing Iraq and Iran's current relationship, one cannot disregard history, religion or ideology. However, the roles of these factors may be changing and new factors such as domestic, public and international pressures, become more relevant than they have been in the past.

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Interviews

Farouk al-Kasim:

Petroleum geologist and currently president of Petroteam. He has formerly worked as an exploration and regional geologist, and as a senior petroleum engineer in the IPC. He has worked in Norway since 1968 as a geological and technical advisor to the Ministry of Industry, and then as director of resource management at the Norwegian Petroleum Directorate until the end of 1990. Al-Kasim co-authored the proposed oil law of 2007 with Tariq Shafiq and Thamir al-Ghadban. Interview with author, Stavanger, 20.10.10.

Ahmed Jiyad:

Has served various roles in Iraq including senior economist with INOC and the MoO, director in the Ministry of Trade, and a chief expert for the Council of Ministers. Interview with author conducted via phone, 06.12.10.

Walid Khadduri:

Editor at the publishing house Dar al-Hayat. He was previously Editor of Middle East Economic Survey (MEES). Prior to this he worked as Director of Information and International Relations at the Organization of Arab Petroleum Exporting Countries (OAPEC) in Kuwait. Interview with author conducted via e-mail 08.11.10.

Ben Lando:

Bureau chief of IraqOilReport.com. Interview with author conducted via e-mail 09.12.10.

Willy Olsen:

Senior Advisor INTSOK. Former Senior Advisor to the President & CEO of Statoil.
Interview with author conducted via phone, 09.11.10

Tariq Shafiq:

One of the founders and directors of the Iraq National Oil Company (INOC), in which he also served as Vice Chairman and Executive Director from 1964 to 1967. Co-authored the proposed oil law in 2007 with Farouk al-Kasim and Thamir al-Ghadban. Interview with author conducted via phone 05.11.10, and via e-mail 09.11.10.

Thamir Uqaili:

Former senior petroleum engineer with experience in exploration and technical management in the INOC and MoO. Was part of a delegation appointed by Saddam Hussein to explore the possibilities for jointly developing shared oil fields with Iran in the 1970s. Interview with author conducted via e-mail 09.11.10 and 10.11.10.

Kjetil Visnes:

Consultant, Political and Public Affairs, Middle East, Statoil ASA. Interview conducted with author via phone 20.09.10, and in Oslo 15.10.10.

Seminars

The *Middle East Network Meeting 2010* in November 2010 arranged by INTSOK.

Transparency in the Iraqi Oil and Gas Industry lecture in April 2011 arranged by NUPI.